ALLETE

Moderator: Mary Hunter
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Operator: This is conference # 26012875.

Operator: Good day. Welcome to the ALLETE fourth-quarter 2015 financials 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 filings made by the Company with the Securities and Exchange Commission.

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For opening remarks or introductions, I'd like to now turn the conference over to ALLETE's President and Chief Executive Officer, Alan R. Hodnik. Sir, please go ahead.

Alan Hodnik: Good morning, everybody, and thank you for joining us today. With me is ALLETE's Chief Financial Officer, Steve DeVinck.

Before I begin with my remarks, I would like Steve to briefly cover the 8-K we issued last week relating to a non-cash impairment charge at ALLETE Properties. Steve?

Steve DeVinck: Thank you, Al. Last week, we announced that 2015 results will reflect a $22.3 million after-tax, or $0.46 per share, non-cash impairment charge at ALLETE Properties, our legacy Florida real estate investment.

In response to market conditions and recent transaction activity, we have reevaluated our strategy for ALLETE Properties to include the possibility of a bulk sale of the entire portfolio, which, if consummated, would likely be below book value. We will also continue to pursue sales of individual parcels over time.

Established in 1991, ALLETE Properties has been a successful business and contributed meaningfully to both earnings and cash flow through 2007. We have not made an acquisition at ALLETE Properties since 2002 and our strategy in recent years has been to thoughtfully exit over time as opportunities arose. Our objective is to unlock capital as we close out this historically successful legacy business and deploy proceeds into our strategic initiatives. Al?

Alan Hodnik: Thanks, Steve.

Earlier this morning, we reported our 2015 financial results which reflect many successes for ALLETE during the year, despite challenges on several fronts. Our reported earnings per share were $2.92 per share, which includes profit from ALLETE Clean Energy's construction and sale of a wind energy facility, the non-cash impairment charge at ALLETE Properties and acquisition transaction fees related to ALLETE's energy infrastructure and related services businesses.

Our full-year results from our operating segments were as expected and Steve will go through the financial details in a moment. ALLETE's value proposition remains intact and our 2015 results are a good example of how our operating businesses support ALLETE's mission and how Management deals with economic challenges and delivers on shareholder value.

Our earnings guidance for 2016 remains at a range of between $3.10 to $3.40 per share and, among other things, reflects strong cost control efforts and increased cost recovery rider revenue at Minnesota Power, as well as growth at both ALLETE Clean Energy and U.S. Water. Before Steve goes through the earnings results, I would like to highlight several accomplishments from 2015.

I believe the tremendous progress we have made on our strategy is clearly positioning ALLETE for continued growth through the end of the decade and beyond. ALLETE's unique family of businesses is committed to service and reliability as we thoughtfully expand our significant renewable-energy platform, while answering the nation's call to transform its energy and water sectors.

ALLETE is well-positioned to capitalize on an emerging environmental landscape that will not only require cleaner energy sources but will also place even greater emphasis on energy and water conservation to meet changing societal expectations.

First, I will highlight several accomplishments from our regulated operations and additional efforts toward positioning our energy services businesses for the future. If you recall back in 2012, a severe rainstorm caused significant damage to Thomson Hydro, Minnesota Power's largest Hydro generation station. We're pleased that the Thomson Hydro generating station came back to full production in the fourth quarter of 2015.

After more than three years and $90 million of restoration and repair work. This facility provides approximately 70 megawatts of carbon-free generation to our system. Minnesota Power recently completed the mercury emissions reduction project at Boswell Unit 4 which completes the compliance at our largest generating unit.

There were also significant advancements during the year with the Great Northern Transmission Line, the proposed 220-mile, 500 kV line that will deliver hydroelectric generated electricity from Manitoba to Minnesota Power. During 2015, the Minnesota Public Utilities Commission determined the Certificate of Need and the route permit applications were complete.

Minnesota Power anticipates final route and presidential permit approval this spring. Great Northern Transmission Line construction is expected to begin in earnest in 2017 with completion scheduled for 2020. We recently received commission approval to proceed with a 10 megawatt solar installation, which will be built at Camp Ripley, Minnesota's primary National Guard base near Little Falls on the southwestern edge of Minnesota Power's service territory.

The $30 million project will help Minnesota Power achieve about 1/3 of its requirements under the State's solar energy standard. Construction of the solar array is expected to begin in May and continue through the summer with the goal to be producing solar power by November of this year. This creative partnership is the latest example of how Minnesota Power is achieving and advancing its EnergyForward strategy.

EnergyForward balances stewardship, reliability and affordability, while maintaining fuel diversity within a generation portfolio that, by the early 2020s, will be comprised of 1/3 renewable, 1/3 natural gas and 1/3 coal. All of these construction projects I just mentioned qualify for current cost recovery treatment, which has provided us rate recovery outside of a general rate-case proceeding.

Related to our regulated businesses, on the industrial customer front, Minnesota Power's taconite customers had a year of challenges, to say the least.While there is no lack of domestic steel demand, challenges continue due to high levels of steel dumping into the United States. Minnesota Power's customers nominated at approximately 80 percent of their capacity for the first four months of 2016. We continue to work closely with these customers on this and other issues while we monitor developments with their production levels as we move forward into 2016.

As you know, Minnesota Power also serves over a dozen wholesale customers. In September, we reported that electric contracts with 14 municipal customers were successfully amended to extend contract terms through December 31, 2024. ALLETE Clean Energy expanded it's renewable energy footprint and presence in 2015.

During 2015, ACE acquired the 97.5 megawatt Chanarambie-Viking wind generation facility in Southern Minnesota and they also acquired the 101 megawatt Armenia Mountain wind energy facility in Pennsylvania. ACE currently owns and operates approximately 535 megawatts of wind generating capability across the United States.

In addition to owning and operating renewable energy facilities, in late 2014 we announced that ACE obtained the rights to develop and construct a 107 megawatt wind facility for Montana-Dakota Utilities.

Earlier this year, we reported that Thunder Spirit was completed as planned at the end of 2015. We are proud of ALLETE Clean Energy's accomplishments, including adding this build, own, transfer capability to it's play-book, that we are excited about its prospect to leverage the cleaner energy future before us.

Last, but certainly not least, ALLETE acquired U.S. Water Services in early 2015. U.S. Water is a leader in integrated water management to a growing number of industrial customers throughout the United States. With societal expectations rising around water quality, conservation, scarcity and reuse, we believe U.S. Water is well positioned to grow while addressing these interests.

Financially and operationally, ALLETE had a very successful year, even with the headwinds coming at some of our nation's largest industries. ALLETE's businesses posted financial results as expected and we made significant strides in executing our strategic plans.

I will make some comments about our outlook for 2016 and beyond, but I will first ask Steve to go through the financial details. Steve?

Steve DeVinck: Thanks, Al. For the year, ALLETE reported earnings of $2.92 per share on net income of $141.1 million versus earnings of $2.90 per share on net income of $124.8 million in 2014.

Included in 2015 results, our $20.4 million, or $0.42 per share, profit on the construction and sale of the wind energy facility by ALLETE Clean Energy, a $22.3 million, or $0.46 per share, non-cash impairment charge at ALLETE Properties and $4.8 million, or $0.10 per share, of acquisition transaction fees related to ALLETE's energy infrastructure and related services businesses. Earnings in 2014 included $1.4 million, or $0.03 per share in acquisition transaction fees, and a $2.5 million, or $0.06 per share, charge associated with an Environmental Protection Agency settlement.

ALLETE's results are within it's November 2015 earnings guidance range of $3.35 to $3.50 per share, which did not include impact of the impairment charge or acquisition transaction fees. ALLETE also met it's original December 2014 guidance of $3.00 to $3.20 per share, which did not include the impacts of the impairment charge, acquisition transaction fees, or profit on the construction and sale of the wind energy facility.

Earnings from ALLETE's regulated operations segment, which includes Minnesota Power, Superior Water, Light & Power and the Company's investment in the American Transmission Company, recorded net income of $131.6 million, an increase of $8.6 million over 2014. Earnings increased, primarily due to higher cost-recovery rider revenue, production tax credits and power marketing sales, as well as lower operating and maintenance expenses.

These increases were partially offset by lower industrial sales and higher depreciation, interest and property tax expense. In addition, Minnesota Power recorded a reserve in 2015 for estimated refunds of $1.6 million after-tax relating to MISO return on equity complaints of which $900,000 was attributable to prior years. Our equity earnings in ATC in 2015 also reflected a $3 million after-tax charge for reserves related to the same complaint, of which $1.4 million after-tax was attributable to prior years.

Operating revenue from the regulated operations segment decreased $12.3 million, or 1 percent, from 2014, primarily due to lower fuel clause recoveries and gas sales, partially offset by a higher-cost recovery rider revenue, total kilowatt-hour sales, as well as FERC formula-based rate increases. Fuel clause recoveries decreased $37.1 million due to lower fuel and purchased power cost attributable to our retail and municipal customers.

Revenue from gas sales at Superior Water, Light & Power decreased $11 million as a result of the unseasonably cold weather in 2014 and a warmer than average 2015. Heating degree days were approximately 16 percent lower in 2015 compared to 2014. Cost recovery rider revenue increased $17.8 million, primarily due to the completion of our 205 megawatt addition to our Bison Wind Energy Center and CapX2020 projects, as well as higher capital investment balances for the Boswell Unit 4 environmental upgrade.

Revenue increased $14.7 million due to a 3.1 percent increase in total kilowatt hour sales. Sales to other power suppliers increased 48.4 percent, mostly due to the commencement of the Minnkota power sales agreement in June of 2014. Sales to our residential and municipal customers were lower due to the decline in heating degree days previously mentioned, and, sales to our industrial customers decreased 11.4 percent primarily due to reduced taconite production.

Revenue from our FERC-regulated customers increased $6.9 million, primarily due to additional renewable, environmental and other investment. On the expense side, transmission services increased $8.5 million, or 19 percent from 2014, primarily due to higher MISO-related expenses.

Cost of sales decreased $9.4 million from 2014 due to the previously-mentioned lower gas sales at Superior Water, Light & Power. Operating and maintenance expense decreased $11.2 million, or 5 percent from 2014, due to cost reduction efforts and a $4.2 million charge in 2014 related to the EPA consent decree settlement.

Cost reduction efforts resulted in lower wage, vehicle fleet and miscellaneous employee expenses. These reductions were partially offset by known increases for the operation and maintenance of the 205 megawatt addition at our Bison Wind Energy Center that went into service at the end of last year.

Depreciation and amortization expense increased $17.1 million, or 14 percent from 2014, primarily due to additional property, plant and equipment and service. Taxes, other than income taxes, increased $4.3 million, or 10 percent from 2014, primarily due to higher property tax expenses resulting from higher taxable plant and rates.

Interest expense increased $4.7 million, or 10 percent, primarily due to higher average long-term debt balances. Our equity earnings in ATC decreased $3.3 million, or 17 percent from 2014. As we previously mentioned, our equity earnings in ATC were impacted by a $5.2 million charge, $3 million after-tax, for reserves related to the MISO return-on-equity complaints.

Other income decreased $4.4 million from 2014, primarily due to lower AFUDC equity. Income tax expense decreased $14.6 million, or 37 percent, from 2014, primarily due to increased production tax credits as a result of the previously mentioned 205 megawatt addition to our Bison Wind Energy Center.

Before I move on from the regulated businesses, I want to emphasize we remain committed to cost containment at Minnesota Power. Despite known operating and maintenance expense increases for the 205 megawatt addition at our Bison Facility, I am pleased that regulated operations, operating and maintenance expenses lower than 2014.

We are reducing costs at Minnesota Power to reduce rate increases for our customers, improve our return on equity over time and manage through the impact of temporary cyclicality facing our customers in taconite mining.

ALLETE's energy infrastructure and related services businesses, which include ALLETE Clean Energy and U.S. Water Services, recorded net income of $29.9 million and $900,000, respectively. Earnings at ALLETE Clean Energy increased $26.6 million over the last year due to higher earnings from its growing portfolio of wind energy facilities and a $24.4 million in profit earned on the construction and sale of the wind energy facility.

Operating revenue increased $228.9 million from 2014 with $197.7 million coming from the sale of the wind facility. Acquisitions in late 2014 and during 2015 also contributed to the year-over-year increase.

U.S. Water, acquired by ALLETE on February 10 of last year, is a leader in integrated water management to a growing number of industrial and commercial customers throughout the United States. U.S. Water Services had net income of $900,000 on revenue of $119.8 million for the period February 10, 2015, through December 31, 2015.

Earnings included $2.2 million of after-tax expense related to purchase accounting for inventories and sales backlog. The total impact of this purchase accounting adjustment is $2.5 million after tax and is expected to be fully recognized by the first quarter of 2016. The corporate and other segment, which includes BNI Energy, ALLETE Properties and other miscellaneous corporate income and expense, posted a net loss of $21.3 million compared to a net loss of $1.5 million in 2014.

The net loss for 2015 included the $22.3 million after-tax impairment charge at ALLETE Properties, and a $3 million after-tax expense for acquisition costs for the acquisition of U.S. Water Services. Earnings-per-share for 2015 were diluted by $0.36, due to an increase in weighted average shares outstanding. Our effective tax rate in 2015 was 15.2 percent, compared to 22.6 percent in 2014.

The decrease was mostly due to increased production tax credits resulting from the addition at our Bison Wind Facility. We anticipate the effective tax rate for 2016 will be approximately 20 percent. ALLETE's financial position continues to be solid. Driven primarily by higher net income and non-cash expense, cash from operating activities increased $70.3 million in 2015 to a total of $340.1 million.

Our debt-to-capital ratio at year-end was 47 percent. As Al mentioned, ALLETE's 2016 earnings guidance, initiated last December, includes a range of $3.10 to $3.40 per share. I would direct you to the 8-K filed last December for more details on key assumptions as part of our earnings guidance. Al?

Alan Hodnik: Thank you for the financial update, Steve.

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. I will highlight several areas for you, along with some of our expectations for 2016.

At our regulated businesses, Minnesota Power will continue to execute its EnergyForward initiatives and pursue customer growth opportunities. Construction on the Great Northern Transmission Line is slated to begin next year, and will provide investment and growth opportunities through the end of the decade. We feel that our EnergyForward actions have positioned us very well for the CPP and other regulations.

But, like many other utilities, we harbor some concerns about assuring we receive credit for early action taken to the benefit of all stakeholders, as well as the consequential nature of this regulation as it relates to reliability and affordability. While the CPP was stayed last week in a decision by the U.S. Supreme Court, we continue to work with stakeholders in shaping Minnesota's CPP state implementation plan, continue to monitor it's legal status, and are taking necessary and prudent action to protect the value of our investment.

We've worked hard to reduce costs at Minnesota Power and we have made significant progress. We have thoughtfully made workforce reductions with the elimination of approximately 100 positions, or 8 percent, in 2015. We are pleased that the overwhelming majority of these reductions remain through coal fleet and other forms of attrition.

We've also recently filed a proposal to implement Minnesota's energy-intensive trade-exposed, or EITE legislation, signed into law by Governor Dayton. The EITE, by design, would allow for more competitive rates for large industrial customers. Last week the Minnesota public utilities commission gave the EITE a fair hearing, but rejected the petition without prejudice.

The Commission, in taking the action they did, indicated they require more cost benefit information before they could make a final determination. Minnesota Power intends too meet, once again, with all stakeholders before determining next steps with EITE. In addition, Minnesota Power filed a depreciation life extension request fully consistent with the environmental upgrades completed at our Boswell generating facility.

If approved, this request would share some of the benefits immediately with customers. As I mentioned earlier, our taconite customers nominated at 80 percent capacity level for the first four months of the year. Nominations will occur in March for the May-through-August time period. And in August, for the final four months of 2016.

I should say that some of the idling reflected in these lower production levels could provide opportunities that have long, positive effects on taconite production here in Northeastern Minnesota. To be specific, Cliffs Natural Resources has publicly shared its plan to retool its United Taconite plant in Eveleth to produce a fully-fluxed taconite pellet.

That new product will replace a flux pellet now made at Cliff's Empire operation in Michigan, which is scheduled to shut down at the end of 2016. On the new customer scene, Essar's last public update indicated it will achieve full production capability in 2016. As you will recall, the Essar facility will result in approximately 110 megawatts of new load for Minnesota Power once it reaches full production levels.

Though the project has had its share of financing and market challenges since it was announced several years ago, we believe this opportunity for additional new load remains intact, and operational start-up is simply a matter of when and not if. To date, Essar has invested in excess of $1 billion in this facility, which sits on a substantial and very high-quality ore body in Northeastern Minnesota.

We do not anticipate any meaningful sales related to the Essar facility in 2016. PolyMet is anticipating the record of decision on its Environmental Impact Statement adequacy from the State of Minnesota in February and action on applicable permits will follow.

Construction could commence late this year and Minnesota Power could begin to supply between 45 and 50 megawatts of new load through a 10-year power-supply contract that would begin upon start-up of mining operations.

ALLETE Clean Energy is positioned for earnings growth in 2016 as a result of the wind energy facilities it acquired during 2015. ACE will continue to target acquisitions of existing facilities which have long-term power sales agreements in place. U.S. Water will further complement our core regulated operations, balance exposure to our utilities industrial customers and provide potential long-term earnings growth.

2015 marked a productive year of post-acquisition integration efforts, as well as a tuck-in acquisition in the Southeastern United States. This, as U.S. Water continues its growth strategy, now as part of the ALLETE family of businesses. Water and energy are intricately linked and attention to this nexus is increasing.

Just like energy, we believe regulation and societal expectation will increasingly drive water conservation and that those macro factors, along with opportunities for improved profitability will drive a growing emphasis on the efficient use of both water and energy. All of us at ALLETE are excited about our prospects going forward and we look forward to delivering another year of earnings growth.

Our Board is confident in our direction and recently voted to increase the dividend on our common stock. This is the sixth consecutive year we have raised our dividend and ALLETE has paid dividends without interruption since 1948. Thank you for your confidence and your investment with us.

At this time, I will ask the operator to open up the line for your questions.

Operator: Ladies and gentlemen at this time if you have a question please press star then the number 1 key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press the pound key. One moment for first question.

And our first question comes from the line of Paul Ridzon from KeyBanc. Your line is open.

Paul Ridzon: Hi, Al. Hi, Steve. How are you?

Alan Hodnik: Good morning, Paul.

Steve DeVinck: Good morning.

Paul Ridzon: As you talk to your customers with steel exposure, What's their tone? Are we bouncing on the bottom? Are we starting to see some potential upside here? Is it just all in the hands of the Trade Commission?

Alan Hodnik: No, I think the sense is that we are bouncing off the bottom at this point in time, that there are some green shoots beginning to appear, partly the ITC and some of the trade action that's already been taken.

Certainly, back in Q4 of last year, the steel consumption from imports was in that 35 percent range. They’re trending down now and heading below 30 percent, so heading in the right direction that way. There is certainly more work to be done on some of these ITC proceedings that are going on. We expect to hear more about that.

I was also pleased to see that Governor Dayton from Minnesota has stepped up, with other Governors. The Governor's conference and a dozen-or-so other governors have had conversations about spending more time with President

Obama on additional levels of protection that might be able to be put into place.

As you recall, President Reagan and President Bush imposed Section 201 of the 1974 trade agreement and shut down steel dumping all together. We continue to push for that. Chief of Staff, McDonough, President Obama's Chief of Staff was in Minnesota in December. I participated in that, as did a number of steel company executives, to express our concern about steel dumping.

Overall, I'm feeling more confident, Paul, that we are making progress on the steel dumping side and that production here in the U.S., on the iron ore side, can then follow. There's certainly no lack of steel demand in the Great Lakes.

As you know, auto production is strong at this point in time. Other durable goods production is pretty strong, as well, too. So U.S. domestic production of steel is strong and we just need to end this steel dumping and I think it's heading in the right direction.

Paul Ridzon: Thank you. And, Steve, can you review your commentary on O&M at Minnesota Power?

Steve DeVinck: Sure, Paul. I will.

We remain committed to cost containment at Minnesota Power to reduce rate increases for our customers, improve our return on equity over time and manage through the impact of temporary cyclicality facing our customers in the taconite mining.

With our 2016 guidance, we projected 2016 regulated operation and maintenance expense to be approximately 5 to 10 percent less than 2014. This despite known increases for the operation and maintenance of the addition to our Bison Wind Energy Facility.

With respect to 2015, it is approximately 5 percent -- $11 million, or 5 percent less than 2014, approximately $4 million of that is a charge that we had in 2014 for the settlement of an EPA NOD

Paul Ridzon: That's the part I missed, Steve. Thanks.

And given how successful you've been and how aggressive you continue to be, what your outlook on potential for rate cases, or rate case?

Steve DeVinck: Our strategy, Paul, as you know has been to improve Minnesota Power's return-on-equity over time through expense reduction and more clarity on load growth. Certainly, we've made progress on the expense reductions, including the workforce reduction Al previously discussed.

Of course, as we talked about, consistent with our EnergyForward strategy, we're seeking a useful life extension at our Boswell facility, consistent with the remaining useful life of the extensive environmental upgrades that we've completed.

This annual benefit is anticipated to be approximately $20 million in reduced depreciation expense, of which approximately 1/3 would be returned to customers through the environmental cost-recovery rider. We are evaluating the six-month extension requested by the Department of Commerce yesterday.

We're also monitoring developments with our industrial customers to better understand future operation expectations. Nominations from our large power customers are due March 1, as Al mentioned, for May through August. We expect to have more information on our thoughts about a general rate case when we release earnings for the first quarter of 2016.

Paul Ridzon: OK. Thank you, very much. I will see you in a couple weeks.

Alan Hodnik: Thanks, Paul. We will see you in New York.

Paul Ridzon: Thank you.

Operator: Thank you. Our next call come from Brian Russo from Ladenburg Thalmann. Your line is open.

Brian Russo: Good morning.

Alan Hodnik: Good morning, Brian.

Brian Russo: Just what is the updated net book value, depreciated book value, on the Florida properties following the impairment?

Steve DeVinck: Approximately $50 million.

Brian Russo: OK. And what changed from a year ago? What triggered the impairment? Is there something pending in terms of a bulk sale, which triggered this impairment?

Steve DeVinck: The impairment was really due to -- in response to market conditions and other recent transaction activity where we revalued our strategy. This revised strategy incorporates the possibility of a bulk sale for the entire portfolio, which, if consummated, market indicators point to us that, that will likely be in sales proceeds below book value. We will continue to pursue sales of individual properties, of course, over time.

At this time, we do not have a firm sale of ALLETE Properties. We expect that as we adjust our selling prices to better reflect market, that sales activity could pick up. As we stated, our objective is to unlock capital as we close out this successful legacy business and apply the proceeds in our strategic initiatives.

Brian Russo: OK, understood. On the Boswell depreciation study, did I hear you correctly that the Department of Commerce requested a six-month extension?

Steve DeVinck: Yes, they did that yesterday. It was requested and granted.

Brian Russo: OK. So requested and granted. Got it. OK, so another six months on that.

Remind us, what is assumed in your guidance in terms of demand nominations? Is it 80 percent through the first four months or 80 percent for the entire year?

Steve DeVinck: So the midpoint of our guidance range, our guidance range is $3.10 to $3.40, assumes about 35 million tons of taconite production. Remember that in Northern Minnesota there's, at capacity, there's about 41 million tons.

Brian Russo: OK, got it. And then, you mentioned earlier, Essar has publicly stated that they assume full operation in 2016. However, you have assumed no sales to Essar in 2016? Are you just being conservative or as there something else that we should be aware of?

Alan Hodnik: We're just being conservative at this point. As I said to you many times and others, that the start-up of large taconite facilities, it's not turn the switch on and it's 110 megawatts, in this case. There's a start-up period. Obviously, they've had some construction fits and starts, as well, too.

So we just decided to be conservative in 2016 with it. They said they've got $1 billion invested at this stage of the game, and in my mind, in our minds at least, it's not a matter of if, it's a matter of when.

Brian Russo: OK. And then lastly, given the challenges that the solar industry is facing now, do you see ALLETE Clean Energy as becoming even more opportunistic, as say you were in 2015, in pursuing acquisitions?

Alan Hodnik: ALLETE Clean Energy is going to continue to pursue acquisitions that make sense along all forms of the renewable space, so wind and solar and hydro, even clean natural gas projects that come up. We still think cleaner energy forms are in vogue.

The CPP even it's stay, certainly, it's basis really is cleaner energy forms, as well. And so, we are going to continue to look. They are going to continue to look.

They certainly have a deal flow and a pipeline of opportunities. But we are going to be very disciplined, as we have been, and look for those that really provide best opportunities for shareholder value for ALLETE. Those that come complete with PPAs, with off-takers and credit worthy partners.

Brian Russo: OK, thank you.

Alan Hodnik: Thank you.

Operator: Thank you. Our next question comes from the line of Jay Dobson, from Wunderlich. Your line is open.

Jay Dobson: Steve, earned ROE for 2015 at the regulated operations was...

Steve DeVinck: Minnesota Power's total regulated return activity was approximately 8.5 percent in 2015. We estimate that with full taconite production return on equity would have been approximately 9 percent.

You might be interested about our views on 2016. At the midpoint of our 2016 earning guidance range, we estimate Minnesota Power's ROE would be in the mid-to-high 8 percent range. We estimate that with full taconite production, the return on equity would have been approximately 9 percent. And just a reminder, this does not include any impact from Essar or PolyMet.

Jay Dobson: Got you. That's great.

And then to the O&M, just for clarity. You said 5 to 10 percent when you gave guidance, lower than 2014, but you got 5 percent in 2015, so though the math isn't going to be perfect, is it fair to assume 2016, now, relative to 2015 is 0 percent to 4 percent or 5 percent reduction?

Steve DeVinck: Yes, that is fair. We did better in 2015 than we originally anticipated. We are happy about that, but your math is probably fairly correct.

Jay Dobson: Great. Steve, what was the real estate drag in 2015?

Steve DeVinck: ALLETE Properties…

Jay Dobson: Excluding, of course, the impairment. Apologies.

Steve DeVinck: Yes, thank you. Excluding the impairment, ALLETE properties lost about $1 million.

Jay Dobson: Great. And then two sort of detailed questions. The purchase accounting impact that U.S. Water, you cited as $2.5 million. That was the full impact in 2015? I am stating that as a statement, but it's a question, and that's a pre-tax number?

Steve DeVinck: That's an after-tax number and that's the impact for the full-year.

Jay Dobson: That is? So that will be that little stub period from January 1 to February 9 of 2016, and then it will be exhausted?

Steve DeVinck: Correct.

Jay Dobson: Great. And then the tax rate, 15 percent, roughly in 2015, 20 percent in 2016. With PTCs are you assuming in the 20 percent? And I only ask that because you said the 2015 was lower than expected because you had a higher than expected PTC?

Steve DeVinck: I don't know that it was lower than expected. We had higher PTCs from last year, production tax credits.

20 percent, it will go up to about 20 percent in 2016, primarily just due to higher pre-tax -- a higher assumption of higher pre-tax income. Production tax credits in 2016 and 2015 are probably going to be comparable, since we had all of our Bison Wind Facility in service at the end of 2014.

Jay Dobson: Got you. And then, Al, last one. As you think about the acquisitions for U.S. Water and for ALLETE Clean Energy, maybe just talk about what you expect out of acquisitions? Vis-a-vis, I'm just measuring it brutely, if you will, versus the U.S. Water, which was a big addition, but not a lot of earnings?

Alan Hodnik: Well, we haven't really changed our view on size of transaction at ACE. So our size of transaction, $50 million to $150 million plus or minus, in that range, is what we'd continue to try to pursue. I know we've had smaller acquisitions at ACE, of course, but that's our focus.

As I expressed earlier, the broad range of renewables are still on the table. We are not singly looking at wind in that case. With respect to the U.S. Water tuck-ins, if you will, those are likely to be smaller in nature, in the $5 to $50 million range.

As we think about our strategic acquisitions there, there is number of factors that come into the strategy in terms of geography and where we want U.S. Water to play and when those opportunities might present themselves. So that's the range. Both companies have a decent deal flow and strategy to acquire.

We also hope on the U.S. Water side, of course, we'd expect organic growth. As you know, I think the nexus of energy and water is very important and in growing. Societal expectations are growing and so we just see greater demand for that. Also, and so, organic growth is part of U.S. Water's go-forward strategy, as well.

Jay Dobson: No, that's great. And then actually just one last question on the Boswell proceeding. The delay for initial comments to August 16, what's behind that?

I recall there was a January date, which was extended to February, actually to today. And then late yesterday they extended to August 16. Is it workflow? Is it -- What's driving that?

Alan Hodnik: We haven't had any direct conversation with the Department of Commerce regarding that, but I suspect there's a workflow and demand on resources issue down there with the Public Utilities Commission and also with the Department of Commerce.

There is, of course, a lot of work going on in a number of utilities with projects and with filings, as you know with regards to Minnesota and what Minnesota is up to on energy policy. So I think it's largely around demands on resources, basically, and that would be the basis of their extension ask.

Jay Dobson: Got you. And when you put that together with EITE rejecting, although rejected without prejudice, and now this delay. Understanding in response to an earlier question, you indicated you'd have more commentary and update on sort of the outlook for a rate case in 2016 this year -- on the first quarter call, how do you think about those two?

Obviously, both could be considered in the context of a broader rate case. At least as an outsider, it looks like on both issues for workflow or whatever, the Commission is kicking the can down the road?

Alan Hodnik: As I said, with respect to EITE and the legislation that the legislature passed and the Governor signed, we felt we got a fair hearing from the Minnesota Public Utilities Commission, almost an eight hour in length hearing. One of the longer hearings that I recall. They were very deliberative. There were many good questions that were raised around the EITE.

And in the last analysis and rejecting that petition unanimously, without prejudice, that's an important distinction, they more or less want us to go back and identify additional cost benefit relative to the EITE. They provided many good examples of areas of interest of theirs, at least.

And so we're going to go back with our stakeholders and work with them on that and draw some conclusions as to how we want to approach the EITE going forward. Could EITE and depreciation and all that end up in a rate case? I suppose it could. But as Steve said earlier, we have a strategy right now that really depends on cost reduction and ROE improvement in the near-term.

It also is expecting load growth to materialize and we're watching that very closely, of course. Lastly, taconite nominations. And so all of that rolls together. But to the extent, could it all fold in together? It certainly could. Is that what the Commission and DOC are necessarily driving towards? I don't know that I could say that.

Jay Dobson: That's great, Al. Thanks for the insights, Steve. Thank you.

Steve DeVinck: Thank you.

Operator: Thank you. Our next question comes from the line of Paul Ridzon from KeyBanc. Your line is open.

Paul Ridzon: I just have a follow-up. In the beginning of the call you kind of talked about some gives and takes and came back with around a $3.06 ongoing number. Wasn't it about $0.05 of FERC reserves that you took out of the period?

Steve DeVinck: Yes, from prior years. Yes, that's probably what it was. Probably about a nickel related to prior years.

Paul Ridzon: So $3.11 is probably another way of looking at ongoing earnings?

Steve DeVinck: That would be another way of looking at it, yes.

Paul Ridzon: OK, thanks.

Steve DeVinck: Thanks, Paul.

Operator: Thank you. There's no further questions in queue. I would like to assign the conference back over to Management for any closing remarks.

Alan Hodnik: Well, thank you, everyone, for being with us. And thanks for your confidence and investment with us again.

Steve and I look forward to seeing many of you on March 3, in New York and certainly, we will be out on the road throughout the year here, sharing the ALLETE story. Thanks for spending time with us this morning.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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