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Q4 2020 ALLETE Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 17, 2021 / 3:00PM GMT

CORPORATE PARTICIPANTS

Al Rudeck ALLETE, Inc. - *President of ALLETE Clean Energy, Inc.*
Bethany M. Owen ALLETE, Inc. - *CEO, President & Director*
Frank Frederickson ALLETE, Inc. - *VP of Customer Experience- Minnesota Power*
Robert J. Adams ALLETE, Inc. - *Senior VP & CFO*
Steven Wayne Morris ALLETE, Inc. - *VP, Controller & CAO*

CONFERENCE CALL PARTICIPANTS

Brian J. Russo Sidoti & Company, LLC - *Research Analyst*
James R. Schaefer Guggenheim Securities, LLC - *Senior MD*
Peter J. Bourdon Mizuho Securities USA LLC, Research Division - *Analyst*
Richard Wallace Sunderland JPMorgan Chase & Co, Research Division - *Associate*
Sarah Elizabeth Akers Wells Fargo Securities, LLC, Research Division - *Senior Equity Analyst*

PRESENTATION

Operator

Good day, and welcome to the ALLETE Fourth Quarter 2020 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 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. I will now hand the call over to Ms. Bethany Owen, President and Chief Executive Officer. Please go ahead.

Bethany M. Owen ALLETE, Inc. - *CEO, President & Director*

Thank you. Good morning, everyone, and thanks for joining us today. With me are ALLETE's Senior Vice President and Chief Financial Officer, Bob Adams; and Vice President Controller and Chief Accounting Officer, Steve Morris. Also with us this morning are Al Rudeck, President of ALLETE Clean Energy; and Frank Frederickson, Minnesota Power's Vice President of Customer Experience.

Corresponding slides for this morning's call can be found on our website at allete.com in the Investors section. To follow along, we'll call out each slide number as we go through today's presentation.

This past year was a time of great challenges as well as incredible accomplishments at ALLETE. This morning, ALLETE reported full year 2020 earnings of \$3.35 per share on net income of \$174.2 million. ALLETE not only weathered the global pandemic through a tremendous amount of hard work by our team, we also delivered solid financial and operational results, which Steve Morris will describe later in the call. And we did so while keeping the safety and health of our coworkers, our families, our customers and our communities, our highest priority. I'm so grateful to our employees across our family of businesses in many different states, all of whom demonstrated their incredible resilience and steadfast commitment to our customers, our communities and each other during this most challenging time.

We certainly saw this past year that we truly are stronger together.

As I shared with you last quarter, we know that especially during trying times like these, our commitment to transparency is even more important to all of our stakeholders. Last quarter, we reiterated our commitment to ALLETE's long-term 5-year objective of achieving consolidated average annual earnings per share growth of 5% to 7%. While on that conference call, we were transparent regarding the

challenges we were seeing with our October 2020 projections falling slightly below that range. As Bob will discuss in more detail later in the call, we're very pleased to report that we are now projecting growth within our average annual 5% to 7% EPS objective range.

So as we move on from 2020, ALLETE is well positioned for the future. We intend to build on our strong foundation of integrity, our extensive track record of success and our long-standing reputation as a company trusted by our many stakeholders. Through our sustainability and action strategy, we will continue to deliver value to our customers, our communities and our investors while providing opportunities for our employees as together, we build a clean energy future.

A significant step forward in this commitment is Minnesota Power's recently announced vision to deliver 100% carbon-free energy to customers by 2050. We're proud that Minnesota Power is already the first Minnesota utility to provide 50% renewable energy. But as we said when we reach this exciting milestone in December, we have more work to do. We're taking concrete actions to address climate change, while working to ensure the reliable and affordable energy that our customers and our communities expect.

Please refer to Slide 2 as I highlight just a few details from the integrated resource plan, or IRP, that Minnesota Power filed on February 1. The IRP was developed through a best-in-class process with strong engagement over the past year from a broad range of stakeholders, from customers to consumer and environmental advocates, to communities, to regulators, to employees and many others. In the IRP, we identified plans to increase Minnesota Power's renewable energy supply to 70% by 2030 and to achieve a coal-free energy supply and 80% less carbon by 2035. These steps include adding an estimated 400 megawatts of additional wind and solar energy; retiring Boswell Energy center unit 3 by 2030; transforming Minnesota Power's Boswell Unit 4 to be coal-free by 2035; and investing in a modern, flexible transmission and distribution grid.

These are significant and meaningful changes to Minnesota Power's entire system, and it's critically important to us that this transition truly be sustainable. Meaning it goes above and beyond addressing climate change to care for our customers, our communities and our employees throughout this transition. This plan and our 2050 vision, allow time for advances in technology and for our communities and our employees to transition to a secure and carbon-free energy future.

Also making significant progress in ALLETE's sustainability and action strategy is our second largest company in the ALLETE family. With current operations in 7 States, ALLETE Clean Energy is well positioned to drive additional clean energy sector growth, as Al Rudeck will discuss in a moment. As highlighted in our third quarter conference call, ALLETE Clean Energy's growth has exceeded our original expectations from when we founded the company just 10 years ago.

Building on ALLETE Clean Energy's reputation and its strong track record of success, we believe it is the optimal time to expand its focus beyond wind to additional opportunities within the clean energy space. Obviously, for competitive reasons, we can't share too many details right now, but we're confident that our strategy to expand and diversify the business through new geographic regions, customers and clean energy technologies will extend and grow our earnings as part of ALLETE's value proposition for investors.

The combination of our regulated businesses, significant initiatives and those already completed and underway at ALLETE Clean Energy will further advance ALLETE as a leader in sustainability. We've been an early mover in this transition, and we're well positioned for the clean energy future. Now I'll turn it over to Steve and Bob for further details on our 2020 financial results, 2021 guidance and additional details on our growth outlook. Steve?

Steven Wayne Morris ALLETE, Inc. - VP, Controller & CAO

Thanks, Bethany, and good morning, everyone. I would like to remind you that we filed our 10-K this morning along with an 8-K that provides details on our 2021 earnings guidance, and I encourage you to refer to them for more details. Please refer to Slides 3 through 6 for significant year-over-year variances and other items for comparison considerations.

Today, ALLETE reported 2020 earnings of \$3.35 per share, on net income of \$174.2 million. Earnings for 2019 were \$3.59 per share on net income of \$185.6 million. Results for the year ended 2020 were negatively impacted by lower sales due to the ongoing COVID-19 pandemic and related disruptions. Net income in 2020 also included reserves for interim rates of \$8.3 million or \$0.16 per share due to the resolution of Minnesota Power 2020 General Rate Case.

Net income in 2019 included \$0.24 per share for the gain on the sale of U.S. water services.

A few details from our business segments. ALLETE's regulated operations segment, which includes Minnesota Power, Superior Water, Light and Power, and the company's investment in the American Transmission Company, recorded net income of \$136.3 million compared to \$154.4 million in 2019. Earnings reflected lower net income at Minnesota Power, primarily due to lower megawatt-hour sales to retail customers due to the COVID-19 pandemic; lower revenue resulting from the expiration of certain municipal and power sales contracts; higher depreciation expense; and lower fuel adjustment clause recoveries with the adoption of a new fuel adjustment clause methodology in 2020.

Overall, we estimate that the COVID-19 pandemic negatively affected revenues by approximately \$0.25 per share for the year ended 2020 from our expectations. These decreases were partially offset by 8 months of higher retail rates resulting from Minnesota Power's 2020 rate case settlement. ALLETE Clean Energy recorded 2020 net income of \$29.9 million compared to \$12.4 million in 2019. Net income in 2020 reflected additional production tax credits, increased earnings from Glen Ullin, South Peak and Diamond Spring wind energy facilities and higher megawatt hour sales due to higher wind resources as compared to 2019.

Our corporate and other businesses, which includes BNI Energy, our investment in Nobles 2 and ALLETE properties, recorded net income of \$8 million in 2020 compared to net income of \$19.9 million in 2019. Net income in 2020 included earnings from the company's investment in the Nobles 2 wind energy facility, which commenced operations in December of 2020. Net income in 2019 included the gain on the sale of U.S. Water Services of \$13.2 million.

I'll now turn to our 2021 earnings guidance. I would ask that you refer to Slide 7, titled 2021 guidance highlights for further reference and our full 2021 earnings guidance in our 8-K filed with the SEC this morning. Today, we initiated 2021 earnings guidance of \$3.00 to \$3.30 per share on net income of \$160 million to \$175 million. This guidance range is comprised of our regulated operations within a range of \$2.30 to \$2.50 per share and ALLETE Clean Energy and corporate and other businesses within a range of \$0.70 to \$0.80 per share.

A few comments on our regulated operations outlook for 2021. Our 2021 guidance reflects a full year of the Minnesota Power retail rate increase from last year's rate case settlement compared to 8 months in 2020. Minnesota Power's 2021 industrial sales are expected to range between 6 million to 6.5 million megawatt hours, which reflects anticipated production from our taconite customers of approximately 35 million tons. Our estimated industrial sales reflect a partial recovery of the domestic steel industry, which has rebounded from the 2020 impact of various industry shutdowns and idling due to the ongoing COVID-19 pandemic. However, steel production rates remain nearly 10% below pre-pandemic level.

We are pleased to begin the year with full production nominations through April for all of our large power industrial customers with the exception of Verso's Duluth paper mill, which we expect to remain idled all year. Our 2021 guidance reflects continued impacts from the ongoing COVID-19 pandemic affecting commercial, other industrial and municipal sales. Minnesota Power will also realize lower revenue due to a power sales agreement that expired in April of 2020.

We expect slightly higher operating and maintenance expense of approximately 3% as compared to 2020 and higher depreciation and property tax expenses due to additional plant in service. We expect slightly lower net income at Superior Water, Light and Power due to additional operating and maintenance expense as well as slightly lower earnings from our investment in the American Transmission Company, as 2020 earnings included a favorable MISO ROE outcome and related true-ups.

Our guidance for our regulated operations assumes we will achieve reasonable outcomes in regulatory proceedings. A few highlights from our 2021 guidance regarding ALLETE Clean Energy. ALLETE Clean Energy expects approximately 3.2 million megawatt hours in total wind generation in 2021, with the expectation of normal wind resources compared to 2.1 million megawatt hours in 2020. Our guidance includes South Peak and Diamond Spring in service for a full year. These facilities were in service in April and December of 2020, respectively. We anticipate the Caddo wind project to be completed by the end of 2021, with no impact to earnings this year. Our 2021 guidance does not include the impacts, if any, of possible acquisitions of renewable energy facilities, additional construction and sale projects or additional requalification projects. At a high level, we view 2021 as a transition year with lingering economic impacts

from the ongoing COVID-19 pandemic, having the most notable effect on our regulated operations.

Looking forward to 2022, ALLETE also provided its preliminary 2022 estimated earnings guidance range of \$3.70 to \$4.00 per share, which ALLETE anticipates formally initiating in early 2022. We expect Minnesota Power will file a general rate case in November of 2021 based on a 2022 test year, with interim rates expected in the beginning of 2022.

I'll now turn it over to Bob to discuss further details on our year ended 2020 and our longer-term growth outlook. Bob?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

Thanks, Steve, and good morning, everyone. 2020 was without question, a very challenging year, rooted in the impacts of the global pandemic. Our successful track record and ability in managing severe economic downturns was directly evident again by the strong results that Steve just shared with you, and I'm very proud of our team.

Although we are all not out of the woods yet and will remain diligent in 2021, we are very optimistic about the future and believe ALLETE is very well positioned to execute and deliver a solid value proposition for our customers and investors alike over the long run. I am particularly proud of our employees who worked hard to ensure our essential services were provided in a reliable and safe manner across our 8 state footprint, something we achieved in spades. At the same time, we did not lose focus or momentum, in advancing our clean energy growth strategy and associated investments. Indeed, 2020 represented one of the largest capital programs in our history with more than \$650 million being invested, including the completion of approximately 500 megawatts of new wind farms and the Great Northern Transmission Line. Overall, our execution and discipline was outstanding especially when considering the challenges created by the pandemic.

We enter 2021 with a strong balance sheet, conservative capital structure at approximately 39% total debt and now generate in excess of \$300 million in total operating cash flow. This positions us well as we continue to advance our sustainable clean energy strategy. A notable achievement on the financing side was our ability to secure approximately \$400 million in tax equity financing under very competitive terms. These key financings were related to the South Peak, Nobles 2 and Diamond Spring wind projects, which came online at the end of the year.

Now I would like to turn to 2021 and beyond. ALLETE is highly focused on providing reliable and competitive services to our customers, and we work hard every day to ensure our operations are efficient and safe. At the same time, we are also keenly aware of the need to provide an attractive value proposition for our investors to ensure the company has continued access to low-cost capital to fund its operations.

Toward that end, several years ago, we established an average annual long-term EPS growth objective of 5% to 7%, which, when combined with a competitive dividend, would provide an attractive total return proposition to investors. I want to be clear upfront that we remain committed to that objective. Consistent with last year, this growth target is comprised of 4% to 5% from the regulated utility businesses and at least 15% for the nonregulated businesses.

In third quarter of last year, however, I cautioned that meeting our growth objectives may be challenged in the short term, given the significant impact COVID-19 was having on our regulated utility business, and competitive pressures we were beginning to see in the wind segment of our renewable business. In full transparency, I indicated that the 5-year average annual EPS growth outlook for our consolidated operations, using 2019 as a base year, was currently below the 5% to 7% range at approximately 4%, with the regulated utility growth closer to approximately 3% versus the 4% to 5% targeted rate.

On a positive note, I also indicated at that time that our nonregulated business segment, which is comprised primarily of ALLETE Clean Energy, was expected to continue to significantly exceed our 15% growth objective. And that, even despite some potential challenges in the wind segment longer term, we were confident that this highly successful platform would be able to leverage its reputation, scale and strong capabilities into new, complementary and higher returning segments of the clean energy market. And we committed to you, we will be providing investors an update in early 2021 upon conclusion of our strategy development work.

With this anchoring in mind, I will now provide an update on our financial outlook for each of the major business segments. Before I dive into the details, however, I'm pleased to report that our consolidated company 5-year outlook using 2019 as a base year, is projecting growth, which is now back within the average annual 5% to 7% targeted range. Though our regulated operations are still projected to grow approximately 3% on average, our ALLETE Clean and corporate and other businesses are now projecting average annual growth in the 30% to 40% range, well above the 15% target originally established.

The actual growth of our regulated operations will be impacted by three main drivers. The first of these are the Minnesota Power's EnergyForward initiatives detailed by Bethany earlier. Obviously, there are sensitive and confidential details to these plans yet to finalize, but we anticipate sharing what we can regarding size, scope and timing with these projects and keeping you paced on our progress as the IRP moves forward. Make no mistake, however that the transformation of our generation fleet into cleaner forms of energy is truly historic in size and scope for our company. And will require significant investment, not only on the generation side, but in supporting transmission and distribution over the next decade or so.

Secondly, we will seek out other regulated opportunities, particularly in the transmission area as the MISO region continues to be challenged with constraints on the grid as renewable generation continues to expand. Our planned expansion of our 550-megawatt DC transmission line is a prime example of that type of investment. Obviously, the ultimate timing of all such investments described will have a material impact on our growth in coming years, and we will continue to navigate this clean energy transition as we have in the past with customer rates and overall competitiveness in mind.

A final major driver of our regulated utility performance is dependent on our ability to achieve acceptable rates of return. Despite our best efforts to manage our costs and improve efficiencies, COVID-19 has had a material impact on our business and our ability to earn our authorized 9.25% rate of return at Minnesota Power.

With COVID impacts, and the health of our customers in mind, we decided to act quickly and settle the Minnesota Power 2020 rate case. This provided an important relief in the form of an interim rate refund of approximately \$12 million in 2020.

Given our expectation that COVID impacts will continue to be material to our customers in 2021, we have also decided to delay a much needed rate filing from March of 2021 to November of 2021. Though we continue to believe those actions were merited and will be key to helping our customers regain a solid footing, it has had a very material impact on our 2021 earnings outlook with returns well below authorized levels. As a result, we will be working closely with our state regulators on a fair and reasonable outcome in our next rate filing, which will enable the company to achieve earnings outcomes more in line with authorized return levels.

On our nonregulated businesses, which is predominantly made up of ALLETE Clean Energy, we have made significant progress over the past few quarters, assessing various strategic options for expanding the business and diversifying its clean energy product offerings. Indeed, we are very excited about the new chapter ahead as we expand into utility scale solar, storage, optimize our current wind portfolio and pursue other potential service offerings. This strategy work, which will be further described by Al Rudeck in a few moments, was supported by outside advisers and was ultimately approved by the ALLETE Board in early February. The strategy is highly actionable, complementary to our existing offerings and leverages unique capabilities of the business.

Moreover, we are confident it will result in even higher annual rates of growth beyond the 30% projection inherent in our wind-only strategy. Hence, we are expanding our average annual EPS growth outlook to as high as 40% growth over the next 5 years. The nature of investments contemplated by the new strategy will provide for attractive rates of return and by virtue of the recurring or contracted nature of the revenues, plus strong cash flows, will support our strong credit ratings.

Our execution of the new strategy is in full swing already as evidenced by yesterday's announcement of an agreement with a subsidiary of Xcel Energy to sell 120 megawatt wind energy facility for approximately \$210 million. This transaction will involve us repowering the 100 megawatt Chanarambie and Viking wind projects as well as developing an additional 20-megawatt site. The project is expected to be completed in late 2022, subject to regulatory approval by the MPUC and receipt of permits.

Cash received from the transaction will be reallocated to opportunities presented by the new strategy, thereby reducing the potential for

future equity needs, another classic example of ALLETE's disciplined approach to capital allocation in action.

In closing, we were pleased in our ability to increase our annual dividend to \$2.52 per share from \$2.47 per share, even despite the challenges we see in 2021. All based on strong confidence in our 2022 and beyond outlook. We are very bullish about ALLETE's strategic positioning and overall growth prospects and are particularly proud of how this growth will continue to advance our sustainability objectives across our company. I'll now hand it off to Al Rudeck for his update and outlook for ALLETE Clean Energy. Al?

Al Rudeck ALLETE, Inc. - President of ALLETE Clean Energy, Inc.

Thanks, Bob. Good morning, everyone. I would refer you to Slide 8, which illustrates how we at ALLETE Clean Energy are driving growth by leveraging our strong platform and capabilities in a growing clean energy market to meet customer demands for more sustainable energy products and services. I'm excited to share our view of the market, and specifically why we, at ALLETE, believe the company is so well positioned for future growth and to diversify its position as a leader in the clean energy landscape.

We are now entering the next stage of America's energy transformation as our country continues to be fertile ground for additional clean energy innovation, opportunity and investment. ALLETE Clean Energy's size is a strength because we are nimble and able to adapt to the markets and tailor our solutions to give customers what they want. As importantly, a small percentage of the market share delivers meaningful growth for ALLETE. The ability to establish and maintain relationships as a hallmark of how ALLETE Clean Energy succeeds in the market, as seen by our repeat transactions and consistent positive feedback from our community host and land owner partners.

Through these partnerships and our combined capabilities of project development, construction, long-term operation and asset optimization are differentiators enable us to secure high-quality investments. As introduced in ALLETE's third Quarter 2020 conference call, we have been crafting a strategy to deliver more comprehensive energy solutions for our customers.

I will refer you to Slide 9, which outlines the core elements of our growth, vision and strategy. ALLETE Clean Energy's new strategy will expand our capabilities, our technologies and our market investments likely to include solar, storage solutions and related energy infrastructure investments and services. We believe that our customers and industry relationships, diverse portfolio of assets located in some of the best wind resources in America and a creative and adaptable team will provide a strong foundation for growth. You'll see more from us in the coming quarters as these plans unfold.

ALLETE Clean Energy will continue to optimize its existing wind portfolio, and seek development for our remaining safe harbor qualified equipment and explore other renewable energy opportunities to expand our service offerings to provide more solutions that customers demand and frankly deserve. The northern wind repowering expansion project with Xcel Energy announced yesterday is a prime example of our strategy in action, delivering sustainability on many levels, going beyond the environment to include supporting communities and the people where we do business. This project meets all of our sustainability goals while also supporting ALLETE's future investments in new clean energy projects.

Businesses and communities with ambitious climate action commitments are raising demand for renewable energy solutions, and ALLETE Clean Energy's strategy is designed to meet those growing needs, while also continuing to service our traditional utility and cooperative and even federal power customers. The 300 megawatt Diamond Spring project became operational in the fourth quarter of last year and is already serving three new Fortune 500 customers: Walmart, Starbucks and Smithfield Foods. And represents its largest single renewables project investing in ALLETE's history, successfully completed during the global pandemic. Diamond Spring is projected to generate more than 1 million-megawatt hours of energy annually and provide great diversity to our northern tier projects that is currently operating and spans coast-to-coast.

We found Oklahoma to be a friendly business environment and welcoming to new investments. It represents a key part of our strategy to diversify ALLETE into the Southwest Area Power Pool market and expand operations into the wind-rich Southern Great Plains region. Similarly, as Steve mentioned, we're pleased with our ongoing progress of the 300 megawatt Caddo wind project located in Caddo County, Oklahoma. Last week, we announced that Hormel and Oshkosh as our newest customers at Caddo, this project is on track to be online by the end of 2021.

We're excited and see renewable energy growth opportunities across multiple regions of the country and can be selective and strategic in when and where we invest. Today, ALLETE Clean Energy's portfolio is -- operates in 5 North American electric markets, and we're looking to either build or add new PTC qualifying projects or repower projects, and/or acquire existing operating assets while expanding products and services in solar, storage and related clean energy services. We are confident ALLETE Clean Energy will become a comprehensive national clean energy solutions provider, as our country is clearly on an expedited path to advance cleaner and more efficient energy forms. I appreciate being here with you today and look forward to sharing more details on our strategy and on our success in the future. And now I'll hand it back to Bethany. Bethany?

Bethany M. Owen ALLETE, Inc. - CEO, President & Director

Thank you for the update, Steve, Bob and Al. We're pleased with all that our team has accomplished in 2020 and look forward to another year of strong execution of our sustainability and action strategy. As Al and Bob stated, we're especially excited to share more with you as we execute ALLETE Clean Energy's growth strategy beyond wind. We're confident that ALLETE Clean Energy will play an increasingly important role in ALLETE's success well into the future.

Sustainability in all of its dimensions has long been a foundation of ALLETE's strategy. We recognize that if not addressed, climate change poses physical and transitional risks. We've taken and will continue to take concrete actions not only to mitigate these risks, but to build a clean energy future through just and meaningful change. As society's energy needs and expectations evolve ALLETE's family of businesses is well positioned for the future.

Consistent with our commitment to transparency, in the coming months, we plan to release a corporate sustainability report that is aligned with the Sustainability Accounting Standards Board, or SASB, and Task Force on Climate-related Financial Disclosures, or TCFD, reporting requirements. This report will also contain additional information regarding our commitment to diversity, equity and inclusion in our workforce, our supply chain and our communities. It will mark the first of many reports over the years as we work to effectuate what is personally important to us at ALLETE and to meet and exceed expectations for sustainability disclosures and increased transparency.

As I've shared with you in previous quarters, we are committed to providing value to our customers and our investors and as part of that commitment, we have a responsibility to do what we can to make the regions where we operate, even better places to live and to work for everyone. For all of us at ALLETE that is sustainability in action. Thank you for your interest and your investment in ALLETE. At this time, I will ask the operator to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Richard Sunderland with JPMorgan.

Richard Wallace Sunderland JPMorgan Chase & Co, Research Division - Associate

Thanks for the updates today. I wanted to start on the ACE side. Thinking about the growth rate, it seems like the 2019 basis unchanged and the regulated outlook is unchanged. So it's primarily ACE driving the move back into the long-term range. Is that a fair characterization?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

Yes. Richard, this is Bob Adams. Yes, that is a fair characterization.

Richard Wallace Sunderland JPMorgan Chase & Co, Research Division - Associate

Great. And so you're thinking about ACE is repositioning and kind of this impact on growth. I'm curious what discrete opportunities you have in the plan now versus prior? Or if this is more about the larger opportunity set that you reviewed for ACE today?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

Yes. So Richard, I would say that it's a combination actually of both. It's a function of the strategic work, the landscape work that we looked at in terms of where we're currently located in the country. The relationships we have with customers, their interest in more products and services, which Al described. And we haven't -- the ACE team has not been doing that in sort of a standstill mode. They've been working with other partners, et cetera, in terms of actually making proposals on projects that would involve, indeed, some of the combinations, for example, of wind and storage and solar and storage. So there's activity that's already well along that enabled us to have some insight, if you will, in terms of transactions that we believe may be on the horizon.

Richard Wallace Sunderland JPMorgan Chase & Co, Research Division - Associate

Okay. Great. That's very helpful color. And then just 2 quick follow-ups here. The 30% to 40% ACE growth, where does that put you on 2024 business mix versus the current agency thresholds?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

So in terms of 2024 -- by the time we get to 2024, we're going to be in that 25% to 30% business mix range, assuming that we do not execute upon anything in addition on our regulated strategy, which is still a big part of our growth strategy. So we're certainly -- as we've outlined, we're pursuing opportunities, even outside our serviced area on the regulated front that will provide growth and synergies as we go. So we fully expect that we will be able to manage the business mix credit headroom challenges as we go forward, even given the growth that increased growth that we see with the ALLETE Clean Energy.

Richard Wallace Sunderland JPMorgan Chase & Co, Research Division - Associate

Got it. And one final one for me. Just the 2022 outlook, does that incorporate the Xcel project announced this week?

Steven Wayne Morris ALLETE, Inc. - VP, Controller & CAO

Yes. It's Steve Morris. No, that is not in here yet. We're going to wait for regulatory approval that has to come before we work that into our forecast.

Operator

Your next question comes from the line of Peter Bourdon with Mizuho.

Peter J. Bourdon Mizuho Securities USA LLC, Research Division - Analyst

Okay. In regard to the wind divestment announced yesterday, just would you be able to give us just a little more clarity on what drove specifically that asset sale? And then also, should we be thinking of that ACE wind portfolio or that type of asset divestment is funding the future ACE growth?

Al Rudeck ALLETE, Inc. - President of ALLETE Clean Energy, Inc.

This is Al Rudeck. Yes. So I think at the highest level, our strategy at ACE has been and continues to be truly customer-focused. And so the first thing is that, that customer Xcel Energy is our biggest customer, and they really wanted to continue to add rate base to their system. So they've been keenly interested in that project for quite some time. It was a project that was built many, many years ago, 15 or 16 years ago, and it's a very good wind area right on their transmission system. So that was part of it. We have relationships to enable us to expand it and the safe harbor turbines to allow us to get maximum value out of that site.

And when we looked at continuing to contract that project, the alternative contracting either with Xcel or other customers versus expanding it, repowering it and selling it to Xcel the value proposition was stronger to go ahead and make that transaction and sell it to Xcel. As we are now at 1,000 megawatts. This buying and selling of assets is a common feature in the industry, and we're going to see us continue to evaluate our portfolio very strategically and we can leverage those investment proceeds back into the business. And so we're very excited about working with Xcel in this way. It's a very good opportunity during this COVID-19 docket that the commission advanced to really help spur economic development in the region. And also provides more clean energy on the grid. So that's kind of the thought there.

We've taken each project. That's the beauty of our platform being country-wide and being in 5 different energy markets. We get a nice

view of a variety of different drivers, considerations. And so each project has its own character and its own attributes that can be leveraged. And so you've seen us repower and refurbish projects. You've seen us now expand and are going to sell a project. You've seen us buy and sell projects to MDU in the past. You're going to see more of that. That's part of our multidimensional strategy to leverage our capabilities and bring value to the company. So that's kind of how we think about the portfolio, and I think there's a lot of embedded optionality that's, my mind often not value the way it could be, and we're going to exploit those value propositions for our customers and for our investors.

Peter J. Bourdon *Mizuho Securities USA LLC, Research Division - Analyst*

Okay. And then maybe one follow-up. Just in terms of some of the regulated capital opportunities you had mentioned, can you just kind of speak to how that meshes with customer bill impact?

Bethany M. Owen *ALLETE, Inc. - CEO, President & Director*

So thanks for the question. This is Bethany. Certainly, that we absolutely are focused on competitiveness of Minnesota Power's rates in particular. So again, as you look at and as I mentioned, in connection with the integrated resource plan that was filed on February 1. Kind of thoughtfully layering in both kind of investments that make sense, both for customers as we move forward in this transition, but also building in time to ensure that we can take advantage of technology advancements in order to ensure that we're providing reliable and competitive service. So certainly, rate impact is foremost of our minds for our customers that compete globally as well as our residential customers that are most vulnerable to cost. So certainly, we're navigating that, and we believe the resource plan that we filed provides that opportunity to take advantage of technology to minimize rate impacts as we move forward in the transition.

Operator

(Operator Instructions) Your next question comes from the line of Brian Russo with Sidoti.

Brian J. Russo *Sidoti & Company, LLC - Research Analyst*

Just -- it looks like ACE and other earn-outs \$0.72 a share in 2020 is like you're forecasting a range of \$0.70 to \$0.80 in 2021. And that's despite having a full year of the 300-megawatt Diamond Spring project. So I'm just curious, is it a matter of pricing and margin on that project? Or are there offsets, as you mentioned, in the presentation like investment development expenses, et cetera?

Steven Wayne Morris *ALLETE, Inc. - VP, Controller & CAO*

Brian, it's Steve Morris. So I can take that question. It's really 2 factors. It's -- that new project, of course, is subject to our favorite HLBV accounting. In the early years it ramps up, correct? So the first year, we said probably 60% to 70% of normal income using the benchmark, it's probably closer to 50%. So if you were to do the math, \$15 million, 50%, you can get that roughly what that number is. And it ramps up over time as we have talked about in our IR presentation, and we do have some additional expenses as well in ALLETE Clean Energy for business development.

Brian J. Russo *Sidoti & Company, LLC - Research Analyst*

Okay. That makes sense. And then on the regulated ops. I think you mentioned a \$0.25 impact from COVID in terms of revenues. So can we back into a dollar amount of those that will be lost revenues you will seek in addition to other costs, et cetera, in this upcoming rate case?

Steven Wayne Morris *ALLETE, Inc. - VP, Controller & CAO*

Well, I wouldn't say that that is -- it's really the outages that we've had during the year plus commercial, other industrials that we would expect much of that to rebound, not necessarily in '21, but by '22 rebound. And that's from our expectations, by the way. So not normal. Normal run rate, obviously, we wouldn't have that. So look at that just from normal expectations. COVID aside, we wouldn't have that. So I don't expect to have that -- all of that into our next rate case Verso aside. We expect them to remain idled.

Brian J. Russo *Sidoti & Company, LLC - Research Analyst*

Okay. Understood. And the \$200 million that you're raising with the ACE project sale, does that eliminate the equity needs that I think you had prior forecasted. I think it was roughly \$20 million a year?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

Yes, Brian, this is Bob. We're going to -- as you're familiar, we have our drift program of about \$20 million per year. So that will remain, but the cash proceeds that we will be getting from that transaction will relieve some of the equity needs that we believe we will have over the 5-year period of time. And that, again, was back to Al Rudeck's comments was very strategic. Again, in terms of our thought process around allocating -- get reallocating capital into higher returning areas as we do so well.

Brian J. Russo Sidoti & Company, LLC - Research Analyst

Okay. And then lastly, just on the IRP. Can you talk a little bit more about the near-term action plan, which I think calls for about 20 megawatts of solar and then about a 200 megawatt wind by 2025. What are the next steps that we should look for in terms of commission endorsement of the IRP or approval of it? What can we look to see? Because that certainly would be added investment at Minnesota Power in the near term?

Bethany M. Owen ALLETE, Inc. - CEO, President & Director

Thanks, Brian. This is Bethany. Certainly, we're -- we filed the IRP on February 1. We're hoping for approval of the IRP by the end of this year. We've had good interactions with the Minnesota Public Utilities Commission at the time that we filed that IRP right before we met with the commissioners and shared with them kind of the plan for the IRP. Certainly is born of a lengthy process, developing it with lots of input from lots of stakeholders, relatively -- positively received. So we're hopeful for approval at the end of this year. And then obviously, individual projects would need to go forward on their own approval, but the approval of the IRP and the resource plan itself is a really strong foundation for moving forward with adding the resources that we believe we need in addition to transmission and distribution investments, which are part of the integrated distribution plan that we have in place and that we'll also be filing again in November.

Brian J. Russo Sidoti & Company, LLC - Research Analyst

Okay. And then just one more follow-up. Considering the unique mix of your sales and margins more than half of industrial sales and your goal of being 100% renewable by 2050, I think it is. And the corresponding extremely high load factors of such electricity in industries like taconite. I'm just curious, (inaudible) do you need -- do you need just cost to come down on existing technology? Or do you need emerging technologies to come about to kind of manage the reliability and affordability for such a large electricity demanding industrial customers?

Bethany M. Owen ALLETE, Inc. - CEO, President & Director

Thanks, Brian. Just a correction, where our vision is for 100% carbon-free energy by 2050. So not -- we're not saying 100% renewable by 2050. There is a difference. We do believe that Boswell Unit 4, that site and the infrastructure at that site are important. And so we're looking at, in terms of reliability for these large industrial customers that really expect 24/7 reliability without question. So that's definitely forefront of our mind, along with safety, obviously, and competitiveness of our rates as we transition. So it's really important to think about Boswell Unit 4 and that -- when we retire Boswell Unit 3 in the 2035 time period, we're looking at options of potentially refueling in different ways. And certainly, technology comes into play very well, and we believe this plan provides that time to take advantage of the advancements in technology, whether it's storage or other fuels potentially that would be carbon-free out in that later time period.

Operator

Our next question comes from the line of Sarah Akers with Wells Fargo.

Sarah Elizabeth Akers Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

Just a follow-up on Brian's question on ALLETE Clean Energy. Can you tell us what your annual spend is on development expenses tied to funding new growth projects to date?

Al Rudeck ALLETE, Inc. - President of ALLETE Clean Energy, Inc.

Sara, this is Al Rudeck. Happy to take that question. It's relatively modest. It's typically \$2 million to \$3 million a year is what we've been investing in recent years. And again, that's why the importance of those relationships and really focusing on the customers and meeting what they need as opposed to just having a lot of spend up that's really important in developing projects on our own. It has been a key

part of our success, finding ways to create value without a lot of expense. So it's pretty modest at this time, but it may need to change in future years as the strategy evolves.

Sarah Elizabeth Akers Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

Got it. And then just going back to the Q3 comments regarding return pressures at ACE just want to clarify, are you still seeing those same pressures on returns? Or are you less concerned sitting here today versus a few months ago?

Robert J. Adams ALLETE, Inc. - Senior VP & CFO

Yes, Sarah, Bob Adams here. Yes, we're -- it's our view that those return challenges by virtue of new entrants coming into the market and more financial players coming into the market, that those changes in returns and the pressures on returns will continue. It's a structural shift in that particular part of the business, which happens, as you know, in these competitive industries. So -- and I want to be clear, although we expect those return pressures to be there, that does not mean that we will not continue to see, can I think be successful in placing dollars into the wind areas. It's just that to rely exclusively on wind or to have a strategy that's focused just on wind in a market where you see return pressures out into the future and we think those are going to continue, as I said, that's not wise. And then similarly -- or not similarly, in addition to that, as allocated, we've got customers that are asking for other solutions as part of the portfolio that we would have available. So long answer to your question, but it's a structural thing. And we're very disciplined, as you know, back to credit ratings and how we invest capital to make sure we've got good contract length, good cash flows and returns. And if we can't achieve those hurdles, we're just not going to make those investments.

Operator

Your next question comes from the line of James Kennedy with Guggenheim Partners.

James R. Schaefer Guggenheim Securities, LLC - Senior MD

Just had a quick question on the '21 guide. Why doesn't it only assume 35 million tons for taconite versus the full rate? I guess you received full nominations through April, correct?

Frank Frederickson ALLETE, Inc. - VP of Customer Experience- Minnesota Power

James, Frank -Here, and I'll take that question. And you are correct that we did receive full nominations through April, but I'd like to just share a little bit more about our guidance at that 35 million-ton level. We're watching as we emerge from COVID and how our economy emerges in total, and there are certain sectors of the steel industry that are performing quite well. However, we're still seeing, overall, domestic production rates depending on the week, 5% to 10% below where they were at a pre-pandemic level. So as we look at that and we're waiting for that part of the steel industry to come up to that normal full production level north of an 80% utilization rate. Therein lies where we're looking at -- as we look at a total year of 2021, appropriately budgeting out at about a 35 million-ton level.

James R. Schaefer Guggenheim Securities, LLC - Senior MD

Okay. Got you. And then does the preliminary '22 number, assume a full resumption? Or can you tell us kind of what you're thinking there?

Frank Frederickson ALLETE, Inc. - VP of Customer Experience- Minnesota Power

Yes. That's correct. As we look out to 2022, we see more of that full recovery, as Steve highlighted in some of his comments and earlier questions.

James R. Schaefer Guggenheim Securities, LLC - Senior MD

Okay. Got you. That's helpful. And then I guess, Steve, this one might be for you. But on the deferral application, I guess, it's -- you're not including it in the '21 guidance, but how should we think about that going forward? Just from where we're sitting, anything we should be thinking about as that works its way through the PUC.

Steven Wayne Morris ALLETE, Inc. - VP, Controller & CAO

Yes. We're hoping that they would take this up relatively soon and have a decision in the second quarter or so, which, no other updates other than that.

Operator

At this time, there are currently no further questions in queue. I will now hand the call over back to Ms. Bethany Owen.

Bethany M. Owen ALLETE, Inc. - CEO, President & Director

Thank you, again, for being with us this morning and for your investment and interest in ALLETE. We look forward to speaking with many of you virtually at our Annual Investor Day presentation on March 16 and at other investor venues throughout the year. Enjoy the rest of your day. Thanks.

Operator

Ladies and gentlemen, thank you for participating. This concludes today's conference call. You may now disconnect.

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