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# EDITED TRANSCRIPT

Q2 2021 ALLETE Inc Earnings Call

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## PRESENTATION

### Operator

Good day, and welcome to the ALLETE Second Quarter 2021 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 would now like to turn the conference over to your host, Ms. Bethany Owen, ALLETE Chair, President and CEO. You may begin.

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

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 Jeff Scissons, ALLETE's Director of Corporate Development; 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](http://allete.com) in the Investors section. To follow along, we'll call out each slide number as we go through today's presentation.

This morning, ALLETE reported second quarter 2021 earnings of \$0.53 per share on net income of \$27.9 million. These results are generally in line with our internal expectations for the current quarter, and we remain confident in our ability to achieve our original earnings guidance range of \$3 to \$3.30 per share for the year.

In a few minutes, Steve and Bob will provide additional insights into key financial drivers for the remainder of the year. At the highest level, I'd like to provide a few comments and updates on our strategy.

As we've shared previously, 2021 is a positioning year for ALLETE. Following the challenges of 2020, we are full on executing our strategy, improving the returns of our businesses, focusing on our customers, positioning for additional growth and advancing sustainability in all its forms. This transitional year will serve as a strong foundation for further clean energy transformation while supporting our growth objectives. We're excited about the future, as it's increasingly clear that clean energy is the place to be. ALLETE is in the front end of the curve when it comes to sustainability, and we're confident in our strategy.

We're actively working to address climate change at our ALLETE companies with all stakeholders in mind: our customers, our communities, our coworkers and our shareholders. We anticipate significant investments in ALLETE's regulated and nonregulated businesses in the coming years, all to continue serving our customers with excellence.

We believe we're in a good position to align with yet-to-be-finalized national and state clean energy goals. Our sustainability in action strategy provides optionality and allows time for advances in technology and an equitable transition of our communities to a secure and carbon-free energy economy.

Turning to Slide 3. As we highlighted earlier this year, a significant step forward in our commitment to sustainability is Minnesota Power's recently announced vision to provide 100% carbon-free energy to customers by 2050. This bold vision and its timing reflect how seriously we take our responsibilities to the climate, our customers and our communities. Minnesota Power is the first and only Minnesota utility to provide 50% renewable energy today to our customers. And we're continuing to move forward to address climate change while advancing systems and programs that will support all of our customers in this critical journey.

Starting with our most vulnerable customers, Minnesota Power truly cares for those individuals and families who are economically challenged. And especially during these difficult times, we're grateful for the support and approval of the Minnesota Public Utilities Commission, as we've enhanced our programs to provide outreach and affordability discounts to support those who are most in need in the regions we serve.

As transportation electrifies across the country, Minnesota Power has launched programs to support residential customers with electric vehicle charging and sought regulatory approval to deploy fast-charging stations throughout our service territory to facilitate EV travel across the region. Minnesota Power and Superior Water, Light & Power are also leaders in the deployment of advanced metering infrastructure and the related systems to utilize these investments to benefit our customers.

Again, we appreciate the close work with our stakeholders and the recent approval by the Minnesota Public Utilities Commission of Minnesota Power's plan to incorporate a dynamic rate design that supports engagement from our residential customers in the clean energy future. And we're proud to be the first in the state to do so.

Finally, Minnesota Power's renewable energy supply includes a diverse mix of wind, hydro, solar and biomass resources. We believe that diversity is important in so many ways. And when it comes to energy, having a diverse supply of renewable resources is the most responsible way to transition to a clean energy future, because customers and communities expect reliable energy around the clock.

This is especially true for Minnesota Power's industrial customers as they progress on their own sustainability journeys while maintaining 24/7 operations for their customers. As for those largest customers, we're so pleased that they've rebounded and that the steel industry is strong. In fact, both Cleveland-Cliffs and U.S. Steel recently increased their guidance for the year, driven by strong ore and steel markets.

In addition, we're excited to welcome two new industrial customers to Minnesota Power's region. Last quarter, ST Paper acquired the Duluth, Minnesota paper manufacturing plant with plans to produce recycled tissue products. And Huber Engineered Woods announced their plans for a new state-of-the-art oriented strand board manufacturing facility in Cohasset, Minnesota.

These are important signals that Minnesota is open for business as the economy recovers. And all of these customers are important to the economic health of our entire region. We look forward to serving them well into the future with reliable, competitive and increasingly clean energy.

Minnesota Power's sustainability journey won't stop at 50% renewable. As described in our last conference call, Minnesota Power filed its Integrated Resource Plan with the Minnesota Public Utilities Commission in February. This IRP outlines our plans to further transform Minnesota Power's energy supply to 70% renewable by 2030 and to be coal free and 80% lower carbon by 2035. Throughout this IRP process, we'll continue our close and transparent engagement with our many stakeholders, and we anticipate a commission decision in

the first quarter of 2022.

Finally, as mentioned previously, Minnesota Power is finalizing its plans and forecast in support of an early November rate case filing. Meanwhile, ALLETE Clean Energy recently celebrated its 10th anniversary. In this short time, it has become the second-largest business in the ALLETE family with 100% renewable generation, serving some of the largest utilities and C&I customers in the country. ALLETE Clean Energy is focused on successfully executing its current projects, including Caddo, Red Barn and Northern Wind; improving financial returns by optimizing its existing portfolio and advancing its strategy to move into additional clean energy spaces, such as solar and storage, building on the company's strong track record and reputation.

This strategy has been well received by key stakeholders, and we look forward to sharing more details in the near future. ALLETE Clean Energy's investment growth and improved financial returns will add earnings growth and will position the company for continued success in the decades to come.

ALLETE's family of businesses offers unique value to our investors. We're committed to achieving our 5% to 7% average annual EPS growth objective, along with an attractive dividend. We're answering society's call for increasingly clean energy, and our businesses will continue to grow while delivering the services that are essential to the quality of life of our customers and our communities. ALLETE has been recognized by external research firms as a top-tier company in several ESG dimensions, and we couldn't be more proud of the fact that we are making a difference in the things that truly matter.

Now I'll turn it over to Steve and Bob for additional details on our 2021 second quarter financial results as well as ALLETE's growth outlook. Steve?

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**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-Q this morning, and I encourage you to refer to it for more details. Please refer to Slides 4 and 5 for significant variances and other items for comparison considerations.

Today, ALLETE reported second quarter 2021 earnings of \$0.53 per share on net income of \$27.9 million. Earnings in 2020 were \$0.39 per share on net income of \$20.1 million. Results in the second quarter of 2020 included an \$8.3 million after-tax charge or \$0.16 per share for the Minnesota Power 2020 rate case resolution.

A few details from our business segment. 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 \$21.5 million compared to \$11.1 million in the second quarter of 2020. Results in the second quarter of 2020 included the \$8.3 million after-tax charge for the Minnesota Power 2020 rate case resolution, of which \$6.5 million related to the first quarter of 2020.

Earnings reflected higher net income at Minnesota Power as compared to 2020, also due to higher kilowatt hour sales to commercial and municipal customers, higher cost recovery rider revenue and the timing of income tax expense. These increases were partially offset by lower margins, resulting from the expiration of a power sales contract in April of 2020 and higher operating and maintenance and property tax expense.

ALLETE Clean Energy recorded second quarter 2021 net income of \$5.1 million compared to \$4 million in 2020. Net income in 2021 reflected earnings from the Diamond Spring wind energy facility, which commenced operations in December 2020. Like others in the industry, ALLETE Clean Energy's wind energy facilities were negatively impacted by lower wind resources, especially in the Midwest, which were approximately 15% below our expectations during the quarter. The impact of lower wind resources was mostly offset by lower operating costs resulting from ALLETE Clean Energy's expense management efforts.

Our Corp and Other businesses recorded net income of \$1.3 million in 2021 compared to net income of \$5 million in 2020. Net income in 2021 included lower earnings from marketable equity securities and higher income tax expense as compared to 2020, which varies

quarter-to-quarter based on an estimated annual effective tax rate. These decreases were partially offset by earnings from our investment in the Nobles 2 wind energy facility, which commenced operations in December 2020.

I'll now turn to our 2021 earnings guidance. We remain confident in achieving our 2021 earnings guidance of \$3 to \$3.30 per share. As noted in the previous quarter, the timing of expenses in the first half of the year negatively impacted results, the majority of which are expected to reverse in the second half of the year. Consistent with the robust steel market recovery, we expect production from Minnesota Power's taconite customers to be near full production for the remainder of the year, a significant increase from our projection earlier this year. Primarily driven by this positive development, we anticipate our Regulated Operations will be at the higher end of our guidance range of \$2.30 to \$2.50 per share.

Also as disclosed in the first quarter, ALLETE Clean Energy and our Corporate and Other businesses are expected to be at the lower end of our guidance range of \$0.70 to \$0.80 per share. This is primarily due to the negative impacts of the extreme winter weather event at the Diamond Spring wind energy facility in the first quarter and lower-than-expected wind resources at our other wind energy facilities. In addition, from a guidance perspective, due to the broader trend of lower-than-expected wind resources so far in 2021, we are factoring in approximately \$0.05 per share for the impact of lower projected wind resources for the remainder of the year.

ALLETE's financial position is supported by a strong balance sheet that includes a cash balance of \$63 million, and our debt-to-capital ratio was 43% as of June 30, 2021.

I'll now turn it over to Bob for comments on our longer-term growth outlook. Bob?

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

Thanks, Steve, and good morning, everyone.

As Bethany and Steve highlighted, financial results from ALLETE's businesses were generally as expected for the quarter, with half the year now behind us. We are reaffirming our consolidated earnings guidance range of \$3 to \$3.30 per share. Our financial results are expected to improve in the second half of the year, primarily driven by robust large power production levels at Minnesota Power.

Our taconite customers are taking advantage of very unique and volatile market conditions, enabling them to sell a significant amount of output into nondomestic seaborne markets. ALLETE's sustainable clean energy growth strategy, having been established years ago, remains a key differentiator to a broad audience of stakeholders, especially the expanding ESG-focused investment community. Consequently, I believe the stakeholder interest will continue to increase and expand, driven by supportive federal clean energy policy and significant infrastructure plans yet to be finalized by Congress.

We were pleased with the recently announced safe harbor extension and improved continuous construction rules for wind and solar equipment. This adds even more confidence to our view that clean energy opportunities remain strong and ALLETE is strategically advantaged to further benefit as it executes on key growth initiatives.

We are laser-focused on achieving ALLETE's average annual growth objective of 5% to 7% over the long term. We are advancing on many key initiatives to get there. First, one of the most important initiatives underway are efforts to ensure Minnesota Power is positioned to achieve reasonable rates of return. Earning competitive financial returns is critical to sustain our business and attract the equity and debt capital needed to continue our clean energy transition, ultimately, decarbonizing our energy system while ensuring service and reliability for our customers.

We continue to execute on business efficiency improvements. And with that, we are advancing our preparations for a Minnesota Power rate case, which will be filed in early November of this year. Sustainable rate-based growth in our regulated businesses will be driven predominantly by clean energy infrastructure investments. Minnesota Power's EnergyForward initiatives, as detailed in our IRP filing earlier this year, include transforming investments in renewables and storage as well as supporting transmission and distribution investments. We believe the IRP, once approved, will provide the enabling foundation to successfully reach clean energy goals while balancing our unique power system on behalf of customers with cost competitive and reliable power delivery.

There remains a critical need for power transmission and delivery improvements in our MISO region as key corridors are not sufficient to handle the rapid expansion of renewable energy on the grid. Likewise, Minnesota Power's region of operations has a high degree of grid complexity and modernization requirements. Our planned expansion of our 550-megawatt DC transmission line, participation in the Grid North Partners initiative and our increasing investment in the American Transmission Company are just a few examples of our significant transmission and distribution growth opportunities. In aggregate, we believe this part of our business will be ALLETE's second-fastest-growing segment in the next decade.

Our second-largest business, ALLETE Clean Energy, is hard at work executing its strategy focused on portfolio optimization efforts, new projects and plans for expanding service offerings beyond wind to include solar and storage solutions. At the same time, the company continues to seek opportunities to optimize its existing PTC safe harbor wind turbine inventory and enhanced returns of the existing portfolio. We are highly confident that with the expanded scale and suite of service offerings, we will be able to maintain very high levels of average annual earnings growth, approaching 30% over the next 5 years.

ALLETE Clean Energy's investment in safe harbor wind components remains a competitive advantage in the development of new wind projects and in further optimization efforts. The 92-megawatt Red Barn build, own, transfer project with Wisconsin Public Service Corporation and Madison Gas & Electric not only provides an opportunity to utilize our safe harbor turbines but also expands our customer base and presence in another geographic region of the country. ALLETE Clean Energy is working with landowners and local governmental jurisdictions to finalize development and plans to begin and complete construction of the facility in 2022.

An extension of this project and a testimony to our strong relationships with optionality to service the C&I and/or utility space, the 67-megawatt Whitetail development project is advancing, with advanced transmission queue position, landowner relationships and for either a long-term PPA or build, own, transfer project.

Regarding the Northern Wind project with Xcel Energy, we were pleased that Xcel's cost recovery petition was approved in June by the Minnesota Public Utilities Commission. This project entails the repowering, expansion and planned sale of our Chanarambie Viking wind facility. This project remains on track to advance with completion expected in late 2022. Cash received from the transaction will be deployed into new opportunities related to our solar and storage expansion strategy, reducing the potential for future equity needs.

On another note, our 303-megawatt Caddo project construction continues to advance on plan for a year-end 2021 completion. All 110 turbines have been installed, and tax equity financing is on track for the closing upon commercial operation. We are contemplating funding the remainder of the completed project with cash flow from operations and a modest amount of equity financing through our internally managed at-the-market program.

Please refer to Slide 6, which provides a high-level summary of new projects currently underway at ALLETE Clean Energy. In summary, from all stakeholder views, ALLETE remains uniquely positioned for success. And our early action on establishing a unique clean energy strategy over a decade ago will continue to reward an ever-broadening stakeholder base for years to come.

I'll now hand it back to Bethany.

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

Thank you for the updates, Steve and Bob.

As you heard, we at ALLETE are executing our sustainability in action strategy. And coupled with the economic recovery underway, we're confident we'll have much more progress to share in the coming quarters. We're proud of all we've accomplished, and we look forward to the future.

On Slide 7, there are several links to important information about our company's work to advance sustainability. We're especially proud of the second link document, ALLETE's first comprehensive Corporate Sustainability Report, which we issued earlier this year. This CSR aligns with the reporting requirements of the Sustainability Accounting Standards Board and the Task Force on Climate-Related

Financial Disclosures. I encourage you to review this document, as it describes in detail ALLETE's strong commitment to sustainability in all its forms, including advancing diversity, equity and inclusion; our strong partnership with our communities, best practice governance as well as reducing carbon and increasing clean energy. We're proud of ALLETE's track record, and we're already planning an update to our CSR in the coming weeks and will update it regularly along the way.

Sustainability is a very foundation of ALLETE's strategy. We're committed to working with all of our many diverse stakeholders to provide value for our customers, growth for our investors, opportunities for our coworkers; and to make a difference in the regions where we operate and the communities we're proud to serve.

Thank you for your interest and your investment in ALLETE. At this time, I'll ask the operator to open the line for your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from Richard Sunderland, with JPMorgan.

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

Maybe starting at a high level here. Just curious about ACE's evaluation of the new clean energy opportunities. How is that progressing? And how is work tracking towards project announcements?

### **Jeffrey Scissons *ALLETE, Inc. - Director, Corporate Development***

Richard, thanks for the question.

We continue to evaluate opportunities across the spectrum in solar and storage, similar to how our approach was on the wind side. We're looking at both operating assets all the way to the early-stage development. So I would say that we see this as a critical focus for ACE. We see it as an important diversifier and growth engine as the solar market is growing exponentially. And more to come in future quarters.

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

And then, real quick on the '21 guidance -- it sounds like the taconite upside offsets some of these ACE 1Q and 2Q hits. Is that a fair summary? And just are there any other moving pieces to think about since the 1Q update?

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

Yes, Richard, Steve Morris here.

Yes, I think you've characterized that accurately. So the Diamond Spring polar vortex event is going to be offset by our positive outlook on the taconite production. Of course, our original guidance says 35 million tons; now we're seeing full production. So that's going to offset that, of course.

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

Maybe just squeeze one more in here. The 2022 outlook, do you need to see Minnesota interim rates before addressing that? I'm just curious, because I believe the build, transfer opportunities remain outside of the outlook?

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

Yes. I think you're right on that. The build, own, transfer opportunities, of course, are related to ALLETE Clean Energy. And we're certainly working on our rate case right now. We don't have the rate case pulled together enough to estimate exactly what that will be. But it is factored into our preliminary guidance for 2022 that we came out with earlier in the year.

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

Sorry, just to be clear there, the build, transfers are outside of the outlook?

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

They were.

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

But a view on interim rates at Minnesota Power is incorporated?

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

Yes, interim rates are in that number. So those build, own, transfer projects were announced after we came out with that preliminary guidance. So they are not in that number.

**Operator**

Your next question comes from Peter Bourdon, with Mizuho.

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

So just to focus on industrial sales a bit -- so it sounds like you're tracking above the 6 million to 6.5 million kilowatt hours you had originally projected for the year. So just curious if you're seeing that as progressing on the trajectory back to more of the pre-pandemic kind of over 7 million kilowatt hours per year of load?

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

It is. Peter, it's Steve Morris. It is for 2021.

So our guidance had 6 million to 6.5 million megawatt hours, if you will, we're probably around that 7% for 2021. So keep in mind, when we had full production and Verso in there, we were around 7% to 7.5%. And of course, Verso is not running this year, so we're looking more around that 7% mark.

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

And is the expectation that that sustains into 2022?

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

Thank you, Peter, Frank Frederickson here.

So as we're looking ahead into the future here, we have -- as Steve mentioned, we came out of a pandemic here in 2020, where we saw about 30 million tons of taconite sales. And we've issued our guidance for this year, around 35 million tons on a recovery, and we are very pleased with how the steel markets are both domestically and internationally in terms of driving demand for taconite from Minnesota, which is leading to that robust sales outlook that we have here in 2021.

We do know a portion of taconite is going into that seaborne market, which historically has a fair amount of volatility to it. And as Steve mentioned, we did lose a customer in Verso. And also very pleased, as Bethany stated in her remarks, that we do have some economic rebirth here in Minnesota, with ST Paper acquiring that mill, converting it -- with plans to convert it to a recycled tissue operation; and Huber Engineered Wood Products planning to break ground on a new greenfield oriented strand board facility in the region. So it's really kind of partially offset some of those lost sales that we had coming out of that pandemic.

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

And then, just as a follow-up, can you just remind us, how does the industrial sales load get set for the upcoming rate case? I know it's a 2022 test year, so just curious if that's more management discretion or based on actual load from 2021.

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

Thanks. Frank again here.

And so we do put forward our forecast for the test year in the rate case, utilizing information we know about our customers and the



markets. And then that does get debated throughout the course of the rate case. And I know, as Steve's mentioned on past calls, too, that we are considering a sales adjustment mechanism here in the future to address the volatility that is involved in some of these industrial customer sales.

Anything more to add on that, Steve?

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

No, that's good. Thanks, Frank.

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**Operator**

(Operator Instructions) Your next question comes from Chris Ellinghaus with Seibert William.

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**Christopher Ronald Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst**

Frank, can you talk about the taconite situation? I understand that the international market is pretty strong. But is the industry sort of filling in a gap here with the exports, while the domestic steel industry still is ramping up as a temporary measure? And do you see that transitioning more towards taconite production for domestic use next year?

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

Thank you, Chris, for that question.

So we do -- I think you summarized it right, that we do see, and our customers have been public about leveraging the seaborne markets for sales. And they've also been sharing, too, that there is a robust domestic demand for steel in our country and supported both by strong durable goods demand with customers and consumers, but also supported by some infrastructure that's coming as well. And there's also the dynamic that's happening with value-added iron units, as we've seen with customers of ours like Cleveland-Cliffs, where they've made advancing technology investments in terms of making products called hot briquetted iron that originates in a value-added DR-grade taconite pellet here in Minnesota's iron range. So we are seeing overall a transition of the steel market and the taconite as it's adapting to the future. And we are seeing also, as you pointed out, too, just some of that -- little bit of leveraging of the seaborne markets to get to that full volume production this year.

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

Chris, this is Bethany. I would just also add that we've been really pleased to see that the bipartisan infrastructure deal contains some measures that really focus on utilizing domestically sourced materials. And we think that's going to be really positive for all of our mining customers in Northern Minnesota.

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**Christopher Ronald Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst**

So it seems like the underlying fundamentals for iron ore are particularly strong. There's steel shortages. So do you envision a market where there is domestic and export? And does that suggest that you would see potentially volumes mined rising back to that sort of 39 million-, 40 million-ton a year kind of level in time?

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

Thank you for that follow up, Chris.

So on a historic average, over the past 10 to 20 years, it has averaged closer to 35 million tons throughout all the ups and downs over the past 15 to 20 years in terms of taconite production.

One of the things that we do know and we do see is that steelmaking in America is the cleanest steelmaking in the world. And some of that comes back to the fact that our steelmakers utilize value-added taconite pellets from Minnesota's iron range as well as Michigan. And we know that as the world focuses, not just domestically, but also internationally on carbon emissions and cleaning up basic industries, there is a trend for some demand to increase in terms of a pelletized product. Because it is a much cleaner form of and lower-carbon intensity form of manufacturing steel. So there is some benefits to that happening.

But as I pointed out there, on an overall historical average, it has averaged around 35 million tons. And we are, as I mentioned, pleased with the robust demand that's happening both domestically and with that international market right now. It'll bring us to approximately a 40 million-ton rate operating rate this year.

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**Christopher Ronald Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst**

Steve, can you talk a little bit about the reduced wind output that you've been seeing? Is that coming from the heat? Or is there some other dynamics that's affecting wind output?

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

It could be a combination of all that, Chris. And it's not just, certainly, ALLETE Clean Energy; it's across the spectrum, across the country; and especially in the Midwest here that we're seeing lower-than-expected wind. It's about consistent with last year. It's just slightly lower. It's just lower than our expectation was during the year. So I don't know if I'd blame it all on the wind -- or, excuse me, the heat. Certainly could be a part of it. But we'll wait and see what we see the rest of the year. And as we said, we probably expect a little bit more of that throughout the rest of the year, particularly in November and December.

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**Christopher Ronald Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst**

And so that preliminary 2022 guidance, you were assuming more like whatever you consider normal conditions? And have you got any thoughts on whether this year's conditions might have some read through to next year?

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

Yes. I think for 2022, we have factored that into our guidance, a little bit more normal wind as we've seen in the past 3 to 4 years versus using, say, the model -- A P50. And some of that is reflected in the preliminary guidance for 2022 that we came out with earlier in this year.

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

Yes, Chris, this is Bob Adams. If you think about that 2022 guidance range, that \$3.70 to \$4, you can imagine, we go through a lot of sensitivities around the horn for our business units, and wind output is one of them. And so that range would capture some of the down sensitivity that we've been experiencing.

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**Christopher Ronald Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst**

Bob, can you talk about -- we've sort of been anticipating that ACE might have some more acquisitions over the last couple of years. Can you talk about what you're seeing in sort of the existing project acquisition market?

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

Yes. So a couple of fronts I would speak to -- first of all, our focus on acquisitions, outright acquisitions of existing portfolios. That remains a focus. We're very mindful of the characteristics of the portfolio we're building, as you know. So back to the center of it, credit quality -- we're taking -- continue to take a hard look at sort of what the future price forecast are going to be, et cetera. So we're going to keep that discipline. And that may mean -- I think we're going to get projects done there, but I think we're going to be very selective about it on the acquisition front.

And so the other focus, of course, are on these new developments. And I think you're going to see a lot more activity. Again, we have remaining safe PTC harbor turbines, which have increased value again because of the extensions that we just got. So you're going to see a lot of activity optimizing those into new projects. Those might be long-term PPA, they might be build, order, transfer similar to the ones that we've just recently announced.

By the way, the fact that they extended the qualification of the 80% PTC in 100% means that we can potentially, back to optimization, place some of those existing 100% PTC harbor turbines into projects that we thought were going to be 80%. That's going to improve returns. So there's some activity around that.

And then, as Jeff spoke, this solar in this storage area is actually quite exciting. I'll tell you that. I think the opportunity is to wrap some of our existing wind projects with storage, and they add the solar element. There's a lot of activity there in terms of the team, and I'm very confident that you're going to see some new investments in those arenas.

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**Christopher Ronald Ellinghaus *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst***

Obviously, there's been some regional interest here in wood and paper products. Is there something about the Verso plant that makes it harder to convert? Or is it merely coincidental that you're seeing some kind of resurgence in the industry there, and maybe Verso gets redeveloped for paper purposes later?

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

Thanks, Chris, for that question. Frank, Fredrickson here again.

So the company that acquired the Verso Duluth mill is ST Paper. Their intentions is to leverage what that site has intact already in a recycled fiber facility to make recycled tissue products. So they have announced that they are planning to convert the paper machine into a tissue manufacturing machine utilizing recycled fiber.

The broader announcement by Huber Engineered Wood products to bring a new state-of-the-art oriented strand board facility to the region is really leveraging the additional capacity of Minnesota's forests in terms of ability to supply more wood in the region as we grow much more wood in the region than we harvest. And they're looking to that resource as well as locationally in the Midwest market. So a couple of good announcements that came forward in the quarter.

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**Operator**

I'm showing no further questions at this time. I would now like to turn the conference back to Bethany Owen.

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

Thank you. We appreciate your time today. So we appreciate you joining us and for your investment and interest in ALLETE. We look forward to speaking with many of you at other investor venues throughout the remainder of the year, and I hope you enjoy the rest of your day.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may all disconnect.

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