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PRESENTATION

Operator

Good day and welcome to the ALLETE Third Quarter 2017 Financial Results Conference Call. Today's call is being recorded. Certain statements contained in this conference call that are not descriptions of historical facts or forward-looking statements, such as times 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 statement. 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 companies 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 view only as of date here. The company undertakes no obligation to revise or update any forward-looking statements or to make any forward-looking statements, whether as a result of new information, future events or otherwise.

For opening remarks and introduction, I'd like to turn the call over to ALLETE's President and Chief Executive Officer, Alan R. Hodnik. Please go ahead.

Alan R. Hodnik *- ALLETE, Inc. - Chairman, President & CEO*

Good morning, everyone, and thanks for joining us today. With me are ALLETE's Senior Vice President and Chief Financial Officer, Bob Adams; and ALLETE's Vice President, Controller and Chief Accounting Officer, Steve Morris. This morning, we reported third quarter 2017 earnings of $0.88 per share on net income of $44.9 million. Results for the third quarter of 2017 reflect a favorable impact from the modification of a Minnesota Public Utilities Commission order on the allocation of North Dakota investment tax credits at a hearing in September of 2017. The commission modified its November 2016 order to allow Minnesota Power to account for North Dakota investment tax credits based on the longstanding regulatory precedent of standalone allocation methodology of accounting for income tax purposes. We were appreciative that the Minnesota Public Utilities Commission reconsidered this important utility ring-fencing matter and believe from a policy perspective, they made the correct determination.

We expect our full year earnings to be in a range of $3.15 per share to $3.40 per share, excluding the impact from the Minnesota Public Utilities Commission decision on the North Dakota investment tax credit. Before Steve and Bob go through the financials related to the quarter, I will highlight several key areas as we near the end of a very busy and productive year. Minnesota Power continues to advance its most recent initiative as part of its Energy Forward strategy. Subsequent to filing its original proposal for a natural gas plant and additional renewable generation in June with the Minnesota Public Utilities Commission, the proposal was refiled as a contested case at the request of Minnesota Power. A contested case regulatory process by design provides more schedule certainty, and Minnesota Power anticipates an Administrative Law Judge report to be available by July of 2018. The Nemadji Trail Energy Center project represents a $350 million investment opportunity for ALLETE and will provide the necessary catalyst for additional renewable generation at Minnesota Power as part of its ongoing Energy Forward initiatives.

With respect to additional regulatory matters, Superior Water, Light and Power was pleased to receive a final rate order from the Wisconsin Public Service Commission in early August. That final rate order allowed Superior Water, Light and Power to begin charging new rates designed to support ongoing reliability of electric, gas and water services provided to its customers, as well as further implement its first in the nation combined water, gas and electric advanced metering infrastructure and enhanced customer experience. The final rates reflect a 10.5% return on equity and a 55% equity capital structure.

A critical component for success relative to our regulated enterprises is a regulatory framework that allows us to earn a fair return on investments made to serve our customers. Earning fair returns for ALLETE's investors reduces the cost of capital needed to provide our customers competitive and reliable services, which are a large part of the quality of life in the regions we serve.

Minnesota Power is entering the final stages of its current rate case proceeding. It provided direct testimony in support of the evidentiary hearings held in early August, and are looking forward to the Administrative Law Judges report and recommendation here in November.

ALLETE Clean Energy is moving forward on many opportunities with its multi-faceted, multi-year growth strategy. The ACE strategy opens the door to optimization and positioning of its existing 535-megawatt fleet of contracted renewable generation. We believe ALLETE Clean Energy's geographic footprint will continue to expand as it adds additional renewable facilities and bids into a significant pipeline of renewable RFPs, backed by its $100 million investment in production tax credit qualified turbine. ACE has also started the process of refurbishing qualified facilities within its existing wind portfolio. ALLETE Clean Energy's strategy also includes evaluating renewable acquisition opportunities that may be suitable for refurbishment. ACE will begin construction in earnest on already announced new projects for quality offtaker in 2018, first starting with a wind energy facility for Montana Dakota Utilities and close behind that project, a new 100-megawatt wind energy facility to be built and operated by the ACE team to service a long-term power sales agreement with Northern States Power, a subsidiary of Xcel Energy.

We remain optimistic on the long-term health of mining and mineral operations that we serve here in Northeastern Minnesota and the potential for new operations that I will comment on in my closing remarks. There have been promising announcements involving new long-term capital investments in Minnesota by our domestic steel in our companies. These investments support the thesis of sustained and robust steel markets boding well for Minnesota Power's taconite customers, who play a key role in our domestic steel industry. As an example, in addition to significant long-term investments already made in its Minnesota-based operations, Cleveland-Cliffs recently announced plans to invest approximately $75 million to 2020 to expand capacity for producing direct-reduced-grade pellets at its Northshore Mining facility. The additional direct-reduced-grade pellets could be sold commercially or used to supply Cleveland-Cliffs' recently announced hot briquetted iron production plant in Toledo, Ohio. This is a good indication of Cleveland-Cliffs long-term commitment to their taconite operations in Minnesota.

We support the leadership and progress made by Minnesota Senators, Amy Klobuchar and Al Franken, along with Congressman Rick Nolan, who appreciate the importance of keeping our domestic mining and steel industries on a level-playing field as they compete in the global marketplace. We strongly support the federal government's continued work to address unfair trade practices that result in excessive levels of imported steel coming into U.S. markets.

I would like to mention one recent development regarding a Minnesota Power paper customer before turning the call over to Steve and Bob. Last week, our region was disappointed to hear that UPM Blandin announced it will permanently close the smaller and less efficient of the two paper machines located in Grand Rapids, Minnesota by the end of the first quarter 2018. Secular decline and overcapacity in the North American paper market were cited as the reason for this action. Minnesota Power provides electric and steam service to UPM Blandin. Our thoughts go out to all impacted by this unfortunate development in the greater Grand Rapids area.

While we acknowledge this is a difficult time for the forest products industry, we remain of a view that Minnesota's natural resource-based economy holds much promise for the future and that our region remains a good place to do business. Minnesota Power is currently assessing the impact of this permanent closure and as formally notified the Minnesota Public Utilities Commission in its current rate case docket regarding the UPM Blandin announcement. We will provide the Commission further updates on this reduction in electric service when available.

As part of the pending Minnesota Power rate case, we have asked the Minnesota Public Utilities Commission to consider an Annual Rate Review Mechanism, or ARRM, which would provide an annual adjustment process for the occasional shifts we see in large industrial demand loads.

Minnesota Power's current rate review submittal, which was filed a year ago this November, provides in our judgment an illustrative example of why an annual rate review mechanism makes sense. Shortly after filing in November of 2016, United States Steel announced its intent to restart its idled Keewatin taconite facility. One year later, as Minnesota Power's rate review nears the end of the process, comes an announcement from UPM Blandin that they intend to permanently idle a paper machine. These two bookend events provide a perfect backdrop as to why an annual rate review mechanism makes sense for Minnesota Power.

While we recognize the uniqueness of such a mechanism, Minnesota Power's large industrial load is also unique among other utilities in the nation and approval of the Annual Rate Review Mechanism would provide a performance-based tool to help mitigate load variability that is inherent in Minnesota Power's service territory. We look forward to continued dialog with our economic regulators on this dimension as the rate review progresses.

I will provide some additional thoughts on what lies ahead for the remainder of the year in a moment, but first, I will ask Steve and Bob to go through the financial details. Steve?

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

Thanks, Al, and good morning, everyone. I would like to remind you that we filed our 10-Q this morning and encourage you to refer to it for more details on the quarter. For the third quarter of 2017, ALLETE reported earnings of $0.88 per share on net income of $44.9 million and operating revenue of $362.5 million compared to $0.81 per share on net income of $40.3 million and operating revenue of $349.6 million for the third quarter of 2016. Earnings were diluted by $0.03 for the third quarter of 2017 due to additional shares of common stock outstanding.

Our results for the third quarter of 2017 reflect approximately $8 million after-tax or $0.16 per share for the favorable impact of a modification to a November 2016 Minnesota Public Utilities Commission order on the allocation of North Dakota investment tax credit. Net income in the third quarter of 2016 included approximately $9 million after-tax or $0.18 per share for an adverse impact of a Minnesota Public Utilities Commission order on the allocation of North Dakota investment tax credits. Excluding the impacts of the regulatory outcomes for the North Dakota investment tax credits, net income for the third quarter of 2017 decreased, primarily due to the following: the financial incentive under the Minnesota Conservation Improvement Program was recognized in the third quarter of 2016, $4.4 million after-tax or $0.08 per share. The 2017 financial incentive was recognized in the second quarter of this year.

Revenue for the third quarter of 2017 was impacted by milder temperatures with cooling degree days down from normal and 2016 by over 50% and lower wind resources, resulting in an earnings impact of approximately $0.10 per share for the quarter compared to 2016. In addition, lower transmission margins of approximately $2 million after-tax or $0.04 per share and higher depreciation interest and other taxes of approximately $2 million after-tax or $0.04 per share impacted 2017 earnings as compared to 2016.

The third quarter of 2016 also included approximately a $3 million after-tax or $0.07 per share gain on the sale of ALLETE Properties' Ormond Crossings project and Lake Swamp wetland mitigation bank. These decreases were partially offset by interim retail rates at Minnesota Power of $4.5 million after-tax or $0.09 per share in the third quarter of 2017.

Moving on to details for our business segments. Operating revenue from ALLETE's regulated operations segment, which includes Minnesota Power, Superior Water, Light and Power and the company's investment in the American Transmission Company increased $24.3 million or 10% from 2016. The increased revenue was primarily due to the period-over-period impacts of the regulatory outcomes related to the North Dakota investment tax credits, the commencement of interim retail rates in 2017 and higher fuel adjustment clause recoveries. These increases were partially offset by the lower financial incentive as previously noted and lower revenue from kilowatt-hour sales.

Interim retail rates for Minnesota Power, which are subject to refund, were approved by the Minnesota Public Utilities Commission and became effective January 1, 2017, resulting in revenue of $7.7 million in the third quarter of 2017. Fuel adjustment clause recoveries increased $3 million due to higher fuel and purchase power costs attributable to retail and municipal customers. Revenue from kilowatt-hour sales decreased $8 million from 2016, primarily due to lower sales to residential, commercial and municipal customers due to cooler temperatures in the third quarter of 2017. Sales to industrial customers increased 13.8% due to increased taconite production, while sales to other power suppliers decreased 14.4% from

2016, as a result of the increased sales to industrial customers. Transmission revenue decreased $1.8 million, primarily due to lower MISO-related revenue.

On the expense side, fuel, purchased power and gas expense increased $1.8 million from 2016 due to increased kilowatt-hour sales and higher fuel costs, partially offset by lower purchased power prices. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. Operating and maintenance expense decreased $2 million or 4% from 2016, primarily due to timing and materials purchased for our generating facilities. Transmission expense increased $2.3 million or 14% from 2016 due to higher MISO-related expenses.

Depreciation and amortization expense increased $1.1 million due to additional property, plant and equipment in service. Other taxes increased $1.5 million due to higher property tax expense and interest expense increased $1.1 million due to higher average interest rates.

Income tax expense for our regulated operations increased $28.9 million from 2016 due to the previously mentioned period-over-period impacts of the regulatory outcome related to the North Dakota investment tax credits. ALLETE Clean Energy's net income decreased $400,000 due to lower wind resources-added facilities, partially offset by lower operating and maintenance expense compared to the same period in 2016.

U.S. Water Services recorded net income of $1.3 million for the third quarter of 2017 versus net income of $1.5 million for the third quarter of 2016. The decrease in net income was primarily due to higher operating expenses, including acquisition-related expense for Tonka Water, partially offset by higher operating revenue.

Our Corporate and Other segment, which includes BNI Energy and ALLETE Properties, included net income of $8.8 million for the quarter compared to a net loss of $7.2 million in 2016. The change from 2016 was primarily due to the period-over-period impacts of the regulatory outcomes related to the North Dakota investment tax credits, lower accretion expense related to the contingent consideration liability and lower interest expense, partially offset by a decrease in the land sales at ALLETE Properties as previously noted.

ALLETE's consolidated effective tax rate for the third quarter of this year was 24% compared to 4% for the same period in 2016. The increase from 2016 was primarily due to higher pretax income. Pretax income was impacted by adjustments to revenue related to the North Dakota investment tax credit regulatory outcomes.

ALLETE's financial position is supported by increased cash flow and a strong balance sheet. Cash from operating activities was $307.2 million year-to-date and our debt-to-capital ratio was 43% as of September 30, 2017.

I'll now turn it over to Bob Adams for additional comments and highlights on our 2017 earnings guidance and outlook. Bob?

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

Thanks, Steve, and good morning, everyone. As Al mentioned earlier, we are maintaining our earnings guidance range of $3.15 to $3.40 per share, excluding the impact of regulatory outcomes related to the allocation of North Dakota investment tax credits. This guidance range allows for a number of items that have already taken place throughout the year, such as interim rates at Minnesota Power; final rates at Superior Water, Light and Power; milder temperatures; the impact from shares issued earlier in the year; and our adjusted capital expenditures related to the Great Northern Transmission Line in 2017.

Yet to impact our 2017 earnings is a final decision on the Minnesota Power rate case, including the impact of our proposed Boswell life extension. Minnesota Power's rate review continues to move ahead on schedule. The MPUC authorized an annual interim rate increase beginning January 1, 2017, which is already reflected in Minnesota Power's results as reported through the third quarter. If the requested Boswell recovery period extension is approved as filed, annual depreciation expense will be reduced by approximately $25 million. If not approved, we would expect final rates to be increased by a similar amount, subject to regulatory approval.

We are encouraged that key intervenor supported the significant portion of the Boswell extension requests during their testimony. We cannot predict the level of final rates that may be authorized by the MPUC. A report and recommendation from the Administrative Law Judge is scheduled to be issued this month with final deliberations from the MPUC expected in January 2018. This schedule will allow us time to consider the impacts, if any, in our December 2017 form 10-K. Related to the pending status of the Minnesota Power rate case and Boswell life extension, we will also defer our 2018 earnings guidance until after the final deliberations from the MPUC.

We are confident in the quality of our rate filing and believe the Minnesota regulators will make a constructive decision that supports the cost of services provided by Minnesota Power. A reasonable rate case outcome will supply a needed foundation to move forward with Minnesota Power's history by providing reliable and sustainable electric service to its unique customers in Northeastern Minnesota.

At our energy infrastructure and related services businesses, our earnings in total for the quarter were generally in line with 2016. ALLETE Clean Energy posted slightly lower financial results in the quarter, primarily caused by variability in wind at its facilities across the country. U.S. Water Services results for the quarter were impacted by additional investments relating to its entry into the waste treatment and water safety application markets. This includes acquisition expenses for our most recent acquisition of Tonka Water. Overall, our deal pipelines are robust and offer attractive opportunities in our chosen growth segments. We remain confident in our ability to grow these businesses in a disciplined manner and in support of ALLETE's earnings and dividend growth objectives. Al?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

Thank you for the financial, update Steve and Bob. ALLETE's businesses remain focused on executing their respective strategies, strategies that we believe will benefit stakeholders as the energy and water landscape continues to evolve with our nation's call for further efficiencies and sustainability when using critical resources. Our foundation of regulated businesses has a great history of delivering value and will continue to do so along with growing contributions from our energy infrastructure and related services businesses.

I would like to share a few details on our latest initiatives. First, some comments on ALLETE's regulated businesses. Minnesota Power's positioning with its transformational Energy Forward plan continues to advance. As we reported in the second quarter, Minnesota Power submitted a resource package to the Minnesota Public Utilities Commission requesting approval for a 250 mega-watt wind energy power purchase agreement, a 10 megawatt solar energy purchase agreement, a 250 megawatt ALLETE-owned natural gas-fired generation investment opportunity. Minnesota Power also requested that the filing deadline for its next integrated resource plan be extended to February of 2019.

In an order received in September of this year, the Minnesota Public Utilities Commission approved Minnesota Power's request to extend the next Integrated Resource Plan filing deadline until October 2019and in the Nemadji Trail Energy Center natural gas initiative, be decided through an Administrative Law Judge process. The Administrative Law Judge is expected to provide a recommendation by mid 2018 and a Minnesota Public Utilities Commission decision is anticipated in the second half of 2018. This potential $350 million investment opportunity will further balance Minnesota Power's energy mix, enable further renewable investment over time, all while contributing to the future earnings growth of the company.

Minnesota Power is also making good progress on its strategic project to deliver carbon-free hydro-generation from Canada into its service territory through the Great Northern Transmission Line. Site preparation and preconstruction activities commenced earlier this year and Minnesota Power expects construction of the line to be completed in 2020. Minnesota Power's portion of this investment is expected to be in the range of $300 million to $350 million and is eligible for current cost recovery.

Total project costs of $66.9 million have been incurred through the end of September on this portion of the line, which follows a 220-mile route from the Canadian border. Minnesota Power's taconite mining customers are currently operating at full production levels and incrementally higher than where they were at this time last year. Initiatives from the federal and state level supporting tariffs and quotas on imported steel are in place, but more work is needed to ensure loopholes are closed to further reduce excessive levels of imported steel that negatively impact our domestic mining and steel industries.

PolyMet's copper, nickel and precious metal mining project in Northeastern Minnesota has completed its formal permit applications, and has reported continued progress with the permitting process. Earlier in the third quarter, a half dozen water permits were released and PolyMet anticipates additional permits from various regulatory agencies to be released into the end of this year and early 2018. As an additional positive sign, Minnesota Governor, Mark Dayton, also recently expressed public support for PolyMet, a change from his earlier undecided view and a big step forward for the project here in Minnesota.

Minnesota Power could supply between 45 megawatts to 50 megawatts of new load under a 10-year power supply contract upon startup of these mining operations. This will be the first non-ferrous mining operation in Minnesota history and as expected, state regulators and PolyMet are thoughtfully managing the permitting process and land exchanges in preparation for the project to move forward.

As mentioned in comments from our last conference call, a federal bankruptcy judge approved a plan, led by Chippewa Capital Partners LLC to take control of the former ESSAR project, now named Mesabi Metallics, subject to certain stipulations and timelines as part of a reorganization plan. Well over a billion dollars has been spent to date on this site in start-up of this operation, and Chippewa has retained world-class EPC constructor Kiewit to complete the project. Chippewa Capital Partners LLC plans to mine and process ore and also produce hot briquetted iron, which could be used in the fast-growing electric arc mini-mill steel segment of the steel industry.

Chippewa has announced the new supply contract with China, which opens markets for high quality Minnesota ore, while reducing existing Northeastern Minnesota mine operations displacement concerns. Operational start-up of this project will generate significant job growth for our region as well as a sizable increase in electric load for Minnesota Power through its wholesale contract with Nashwauk Public Utilities.

Shifting gears from regulated enterprises, I will highlight strategy in motion at ALLETE's Energy Infrastructure and Related Services businesses. ALLETE Clean Energy operates a significant portfolio of approximately 535 megawatts of wind generation across the country and has a robust pipeline of other renewable projects under consideration. As mentioned earlier, ALLETE Clean Energy is moving forward with efforts to refurbish 385 wind turbines located at three wind farms in Minnesota and Iowa. This $80 million reinvestment initiative has started and will take place over the next 4 years, and will be completed in the 2020 time frame. Refurbishing these turbines will improve performance and reliability while generating federal production tax credits as the work on each turbine is completed. We believe the long-term operational benefits and resulting economics from this initiative support the renewal of power sales agreements, especially at the Storm Lake sites. We see tremendous value creation resulting from this initiative, and we expect a gradual ramp-up in financial performance through the construction period as the PTCs are generated and relative to full financial impact beginning in 2021 when all turbine work is complete.

ALLETE Clean Energy's refurbishment project will provide meaningful growth to ALLETE over the life of the 10-year production tax credits. Returns on this invested capital offer a significant premium compared to returns from new development opportunities. This is a great example of the optionality we see in ALLETE Clean Energy's strategy.

Earlier this year, ACE announced that it contracted with Montana-Dakota Utilities to expand the permitted capacity of the Thunder Spirit wind farm by 50 megawatts under a 25-year power sales agreement. This agreement includes an option for Montana-Dakota Utilities to purchase the facility upon completion for a development fee, and ACE anticipates a decision on that option in early 2018. ACE has completed most construction preplanning and associated regulatory processes are nearly complete, enabling construction to begin sometime in 2018.

In March, ALLETE Clean Energy announced it was awarded a project to build, own and operate a separate 100-megawatt wind energy facility, pursuant to a 20-year power sales agreement with Northern States Power. Construction on this project is also expected to begin in 2018, subject to regulatory approvals. With its $100 million investment in PTC-qualified safe harbor turbines, ACE is competitively positioned to win additional renewable projects as it strategically engages in a robust nationwide pipeline of RFPs.

The pipeline of opportunities remains at approximately 1,000 megawatts, so stay tuned for more announcements on projects and investment opportunities from ALLETE Clean Energy.

U.S. Water Services, an ALLETE segment that provides integrated water management for industrial operations, offers a wide range of services by combining chemicals, equipment and engineering for customized solutions to commercial customers in North America. We remain convinced that the nexus of energy and water presents a significant and emerging opportunity for growth at U.S. Water Services, which we believe will create long-term value for our investors.

We believe water scarcity and a growing emphasis on conservation will continue to drive significant growth in the industrial, commercial and governmental sectors, providing organic growth for U.S. Water Services. U.S. Water Services is also pursuing periodic strategic tuck-in acquisitions. During the quarter, U.S. Water announced the $19 million acquisition of Tonka Water, a major supplier of municipal and industrial water applications, focused on equipment offerings into the municipal markets. The Tonka Water integration is going very well and strategically positions U.S. Water Services to capture opportunities in this growing new customer segment. The ALLETE team is working enthusiastically as we move forward with executing our strategy. The strategy we believe offers a continued strong value proposition for investors.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Chris Ellinghaus from Williams Capital.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Bob, in your guidance, you're excluding this reversal on the ITC question, that sort of implies a pretty strong fourth quarter. Can you just talk about what the factors are in your outlook for the fourth quarter?

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

Okay. Thanks, Chris. I'll turn it over to Steve.

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

Yes, we did exclude that. And so our guidance at $3.15 to $3.40 is still a fairly wide range. It hasn't changed from last quarter, Chris, and it's really highly dependent on the rate case outcome. And so that's why we have such a wide range there. So open on that is the depreciation filing, as you know, and we expect to hear that through this rate case outcome. So let me just walk you through that time line a little bit as well so you get that, you can understand that. The law judge will have a report next week, and that'll be instructive with recommendation to the commission. And we have a compliance filing on that, that's due November 17. So that's all public information you can look at. The commission will have a hearing in mid-January and with that, they would also most likely take up the depreciation hearing. We will know all that before we file our 10-K at the end of the year, and so we can reflect the commission's decision in our 10-K. So that could -- that would have the decision on the depreciation in there as well.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. Can you talk about the paper customer? What is the load on that machine that's being retired?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

This is Al. It's a smaller of the two, it's a less efficient mill, it's about a 25-megawatt load.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. Does the ruling from the commission change your tax appetite at all?

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

No, it doesn't, Chris.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. Can you give us a number on what those Tonka acquisition costs were that were in U.S. Water for the quarter?

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

Yes, Chris, they're couple hundred thousand dollars on a pretax basis.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. And lastly, do you know what the size of the Chippewa Chinese contract is?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

I don't know what the exact size of that contract is in the moment. My sense is that Tom Clarke and the Chippewa team are going to come out with that as they get more clarity on the financing. But the good news is the Chinese source, if you will, which eliminates and reduces dramatically the displacement concerns on the iron range.

Operator

And our next question comes from Paul Ridzon from KeyBanc.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

The Boswell depreciation, is that $25 million or $0.25?

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

It's $25 million of lower depreciation on a pretax basis.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Pretax, yes. So $0.32?

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

It's about $0.32, Paul, yes.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Okay. And your guidance has a $0.25 window. How does that play with the $0. 32?

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

Well, it provides for a range of outcomes with interim rates as well, subject to refund. So if you take the midpoint, if we had -- if we were to be successful on the depreciation filing with interim rate -- with no interim rate refunds, we would be at the top end of our range. So that's how we get at the top end of our range. If we have -- obviously, if we have interim rate refunds, we would be at the -- in record reserves in 2017, we were dropped from that.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Okay. And then at Minnesota Power, wind is at risk, that's not normalized, so if the wind resource is weak?

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

You know that's at ACE.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

That was (inaudible).

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

By the way, that's at ALLETE Clean Energy. So they were impacted across their entire fleet by lower wind resources across the country. That's a product --.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

In the combination --.

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

Go ahead.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Go ahead, sorry.

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

Yes, that's about $0.02 per share.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

So the temperature was about $0.08?

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

Yes, it's around a penny for U.S. Water. They were also impacted by weather, some of the storms and hurricanes, so that restricted sales as well as some temperatures out west that they saw. So that was about a penny and the rest would be from our regulated operations.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

You had lower sales to power suppliers because of industrial load coming back. How do the relative margins compare between those two classes?

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

Well, the margin -- this is Steve again, Paul. The margins obviously in our large power are much higher than what we're seeing out in the market right now. But -- and we were impacted by, as you saw, lower power sales to other power suppliers and then also lower prices out in the market as well. So we still are net-net. It's better to have our large power customers running than selling in all market at this point in time, of course.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

And when could we see visibility on these RFPs that you're bidding at the safe harbor turbines into?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

This is Al, Paul. We're continuing to evaluate the opportunities that are sitting out there. Of course, the companies that were interacting with are going through their own processes back at their own shop in terms of weighing, sort of who made submittals and all the rest. But I would expect as you go off, we go off into fourth quarter and off into the first of the year, and as those companies start the RFP submittals that were made, then you'll see some more visibility on what ACE has available to it.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

What's your view on your competitors in these RFPs? How many of them have similarly safe harbor turbines?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

Well, I don't know on a percentage basis, who within their clean energy space has PTC safe harbor turbine opportunities like that. Not everybody took advantage of it, certainly. We did of course, and we don't have to capture necessarily everything that's available in those markets. We think there's plenty in the pipeline, and while there are competitors for some of those projects, naturally so, we believe that ACE will get an opportunity to at least be heard on most of them and then ultimately decide and be selective about which ones it wants to participate in.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

And then the refurbishments, I think you've spent $80 million on equipment. Are those turbines at the end of their PPA's ?

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

There is varying shelf life left on the PPAs, but yes, they are nearer to the end, and we'd be looking to do the renewal of those wind farms and also by virtue of the upgrade, improve their efficiency and lower their costs. So, again, back to my earlier comments, we think we have an excellent opportunity to extend -- particularly at the Storm Lake site, extend the power sales agreements with quality off takers.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

My math would suggest that basically, this would be a very good returns, even if you gave the power away. Is that fair?

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

That's right, Paul, this is Bob. Yes. They are a very unique opportunity and very attractive economics to them.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

And then -- sorry for so many questions, this will be my last one. At U.S. Water, we've kind of seen kind of a growth masked by spending to scale for growth. When does that kind of start to pay off?

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

Well, we're going to see -- broadly, the way to think about it is twofold. One is -- we're one of the half a dozen companies in that space of 600 that have a nationwide platform. So we're uniquely positioned in that regard, and what we're doing with that platform is making investments in other end markets to continue to diversify and add to the growth profile of the business. And that's really been the story or the theme here for the last couple of years or so since we've owned it. We have continued to position and are making investments, and I think Tonka was a good example of that to get into the water reuse market. So, Paul, there's going to be continue to be positioning investments, but I will tell you that that business is now contributing substantial cash flow. For example, year-to-date, it's generated about $13 million in free cash flow, and you can expect that the earnings from that business unit are going to become a bigger and bigger part of our infrastructure services now as we go on to '18, '19 and '20.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Sorry, I said it was my last question, but just clarity, you said in response to an earlier question that Tonka was a couple hundred thousand dollars. What was that?

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

That was the acquisition-related expenses for Tonka that's reflected in U.S. waters results for the quarter.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Okay. That wasn't the cost to Tonka?

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

The cost of Tonka was actually $19 million.

Operator

And at this time, I'm showing no further questions.

Alan R. Hodnik - *ALLETE, Inc. - Chairman, President & CEO*

Well, Bob, Steve and I certainly thank you for being with us this morning and also for your investment in ALLETE. We all look forward to speaking with you at any number of conferences upcoming throughout the year, certainly at EEI Financial Conference next week. Thanks for being with us this morning and have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now connect. Everyone have a great day.